INFLUENCE OF STRATEGIC MANAGEMENT PRACTICES
ON PERFORMANCE OF SMALL SCALE ENTERPRISES:
A CASE STUDY OF KIAMBU COUNTY

BY

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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 Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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STUDENT’S DECLARATION

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

Signed: __________________________   Date: __________________________

Irene Wanjoji (649276)

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

Signed: __________________________   Date: __________________________

Fred Newa

Signed: __________________________   Date: __________________________

Dean, Chandaria School of Business
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DEDICATION

I dedicate this study to my mum and dad Mr. & Mrs. Wanjohi, my sisters Racheal & Anne, my brothers Christopher & Paul, my niece Jeje and nephew Sohi.
ABSTRACT

Most small organizations generally lack managerial abilities capable of implementing and formulating strategies. In this regard, the researcher has come across several studies that have been conducted on strategic management practices in small enterprises. However, none focused on strategic practices in small-scale enterprises and how these practices relate to business performance. There is also a conspicuous assumption that small enterprises have formal strategies considering the focus on strategy implementation. Against this backdrop, this study was conducted on strategic management practices and performance of small-scale business enterprises operating in Kiambu town.

The research questions of the study was to respond to strategic management practices employed by small enterprises in Kiambu town, and how investment in personnel and skills, reaction to competitor actions, maintaining customer loyalty and product differentiation influenced performance of enterprises. The research involved a survey of 99 small enterprises in Kiambu town out of a population of 7,246, through multistage and stratified sampling techniques. Data was collected using questionnaires. Frequency tables and percentages are used to present the findings. Responses in the questionnaires are tabulated, coded and processed by use of a computer Statistical Package for Social Science version 24 programme to analyze the data. Descriptive statistics like the mean and inferential statistics were used to derive meaningful findings and inferences.

Findings reveal that a majority of respondents highly agrees that their business has adopted use of mobile money and card payments; and that their SME identifies competitors and determine the reasons for success of competitors and consider this in strategy formulation. A majority also highly agrees that their products are designed and developed in line with current market needs and that product differentiation is a top priority activity at your SME.

With regard to product innovation, a majority of respondents affirmed to decreasing manufacturing cost in components and materials of current products; increasing manufacturing quality in components and materials of current products; developing newness for current products leading to improved ease of use for customers and improved customer satisfaction.

With regard to process innovation, a majority of respondents highly affirmed to increasing output quality in manufacturing processes, techniques, machinery and
software; and that decreasing variable cost and/or increasing delivery speed in delivery related logistics processes. On marketing innovation, a majority of respondents highly affirmed to renewing the design of the current and/or new products through changes such as in appearance, packaging, shape and volume without changing their basic technical and functional features.

The study concludes that reaction to competitor actions through innovative means has a strong, positive and significant effect on SME performance in the study area. To this end, a majority are observed to take up customer experience enhancing innovations including use of mobile money and card payments and building brand presence through social media. Product differentiation has a strong, positive and significant effect on SME performance in the study area. Further, strategic innovation practices has a strong, positive and significant effect on SME performance in the study area.

The study recommends that appropriate external environment analysis is conducted and continuous review on the environment is conducted. Also strategic planners, strategic situation, strategic analysis and choice are put in place to accomplish the mission and objectives of the SMEs in the light of growth and profitability. Also it recommended that top management should undertake a comprehensive study and adoption of strategic management in all and every aspect and areas of its concern so as to synergies, restructure, re-engineer and reposition its products and operations and thus enhancing competitiveness and performance.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

In most economies, Small and Medium Enterprises (SMEs) have progressively turned into a powerful engine for economic development in a speedily dynamic and growing competitive global economy (Islam, Khan, Obaidullah & Alam, 2011). Ayyagari, Grover and Purvis (2011) assert that SMEs account for about 60 percent of employment in private sector. As a result the growth of SMEs has been of pronounced concern to both researchers and policy makers globally. Batsakis (2014) recognizes a positive linkage between SMEs and economic growth. As a result the academic, private and public institutions give support to SMEs across different to enhance their development (Thompson, 2011). Consequently making such support successful, studies on factors affecting performance of SMEs have gone beyond focusing on institutional arrangements to include the effects firm and entrepreneur attributes have on such SMEs’ performance (Woldie et al., 2008).

The rate of SME failure has however been on the rise due to many of the obstacles affecting businesses. These according to Adongo and Wycliffe (2013) includes: lack of financial resources, lack of management knowledge or experience, laws and regulations, poor location, general economic conditions, as well as critical factors such as poor infrastructure, corruption, low demand for products and services, and poverty. Other reasons are specifically associated with internal factors that have got to do with the organizational leadership, lack of any formal plans with clear performance outcomes, etc. Performance of small businesses world over and specifically in Kenya has not been particularly excellent.

As already highlighted, the government has made many efforts to attempt to reverse his situation through legislations such as Acts of Parliament including the Investment Promotion Act (2009), which had the purpose of promoting and facilitating both local and foreign investments. The Act eases the licensing and other related requirements for an investor in Kenya. Cheap funding through private public partnerships is another way the government has stepped in to improve small enterprise performance. The relationship between business strategy and organizational performance has been a subject of growing interest in the field of strategic management.
Despite this trend, there has been little attention given to a comparative analysis of this relationship. Strategic management is typically associated with the large organizations. Small enterprises are generally run by owner-managers who make strategic decisions mostly based on pragmatic intuition than academic principles (Akabueze, 2012). However, while the lack of formal planning within small firms is recognized, the importance of strategic knowledge and personal commitment from the entrepreneur is viewed as having the potential to serve as a counterweight (Cooper, & Schindler, 2016).

The possession of a formal blueprint has been advocated as important to the success of small firms, specifically to outline the strategic direction of the firm, coordinate action and assist in achieving organizational goals (Sandberg, Robinson & Pearce, 2015). Pearce and Robinson (2015) define strategic management as a set of decisions and actions that lead to formulation and implementation of plans designed to achieve an organization’s objective through formulating mission, developing profile, assessing external environment, analyzing options, selecting the most appropriate option, developing long range (Akabueze, 2012).

Of objectives, implementing strategic choices by means of budgeted resource allocations and evaluating success of the strategic process as an input for future decision making. Strategy is aimed at shaping the performance of an organization’s core business functions in order to meet or beat performance targets (Thompson et al, 2013). All these pose a big challenge to the success of strategy implementation. The Government of Kenya has made tremendous intervention in this sector. Small and Medium Enterprises (SMEs) is an important sub sector for the Kenyan economy since it employs about 85 percent of the Kenyan workforce (Kenya Bureau of Statistics 2009). The promulgation of the new constitution provided an opportunity to address SMEs related issues through regulatory and institutional reforms under a new, devolved governance system as well as the Micro and Small Enterprises Act 2012.

This will be aimed at addressing some of the challenges they face in the course of doing business, and in turn boost the performance of those organizations and the economy. The business setting is characterized by risks and uncertainties. These have fuelled increased importance on strategy. Most organizations that aspire to be competitive in the market place have adopted competitive strategies to outshine their competitors in the market. To
survive in the market place, organizations should formulate and implement strategies and policies that are in line with their objectives (Johnson, 2014).

Whereas the term SMEs or small business is globally used interchangeably, a shared definition of the terms lacks. The review of the literature indicates that the definition of the term SMEs differs with economies (Leitner & Guldenberg, 2010). Various criterions have been used by different countries to define SMEs. In a number of countries, the size of an enterprise is determined by turnover of the firm whereas in other countries, the staff number and fixed investment are used (Lorunka, Kessler, Frank & Lueger, 2011). For instance, China defines SMEs using different criteria including volume of output or sales, value of assets and the number of employees. In Canada, SME is defined as businesses with less than 500 employees. Canada further defines a small business goods-producing business as one that has less than 100 staff or a service-based business with less than 50 staff (Zheng et al., 2009). The Kenya MSME Bill (2011) defines SME as a business with less than 50 employees. Two criteria are used by the MSME Bill 2011 to define SMEs in general: these include (a) the firm’s annual turnover; and (b) the number of staff. This is study will work within the definition of SMEs using the number of employees as defined in the MSME Bill.

Kiambu County is a county in the former Central Province of Kenya. Its administrative capital is Kiambu town. Kiambu County is made up of a wide range of SMEs including electronic and automobile spare parts dealers, distributors/wholesalers, shoe, textile and garment manufactures; hotels, restaurants; business houses, transport & aviation and financial services among others. These total approximately 92,160 according to CBS, ICEG and K-Rep (1999).

1.2 Problem Statement
Most small organizations generally lack managerial abilities capable of implementing and formulating strategies. According to Colin, and White (2014) strategies are indispensable for achieving an organization’s goal in an efficient and effective manner; the biggest challenge faced by most companies is translating theory into practical action plans. The researcher has come across several studies that have been conducted on strategic management practices in small enterprises. Conner (2011), in his study titled “Strategy Implementation and Challenges of Firms in the Packaging Industry in Kiambu County”.
Found out that packaging firms in Kiambu County perceived poor leadership style, wrong strategic choices and poor resource management as a hindrance to strategy implementation. Since these major challenges will be mainly of internal nature, it implied that the small firms in Kiambu County had control over them and could manage them if they put proper strategies in place.

Juma (2015) carried out a case study on strategy implementation and its challenges on African Braille Centre a Kenyan Non-governmental organization. The findings of the study indicated that the institution will be on track in implementing its strategies. This had been made possible through having staff commitment, elaborate annual plans, sound leadership, supportive organizational structure, supportive systems and procedures, and resources/budget allocation. Adongo and Wycliffe (2013) identified the challenges to strategy in health focused Non-governmental organizations in Kiambu County. The study concluded that strategy implementation will be a very important aspect in health focused Non-Governmental organizations and had an imperative influence on their efficiency and effectiveness. The scope of the study will be however limited to health focused Non-Governmental organizations in Kiambu County.

Wanjohi (2013) focused on challenges of strategy in Mathare a slum upgrading project in Kiambu County in a case study seeking to describe challenges in strategic management of slum upgrading policies taking a case of Mathare a slum. The researcher established that slum upgrading will be challenged by inadequate resources, delayed work plans, stakeholders influences, poor leadership among other issues. Omollo and Wanjohi (2013) studied the challenges of implementing strategic decisions at the Kenya Armed Forces Medical Insurance Scheme (AFMIS). The study findings showed that the major challenges of strategy of the AFMIS will be; lack of proper communication of and understanding of AFMIS strategy by the personnel; lack of communication and accountability by the scheme to its members; and monitoring of the health institutions that are contracted by the scheme as they are scattered all over the country.

From the above studies, none focused on strategic practices in small scale enterprises and how these practices relate to business performance. There is also a conspicuous assumption that small enterprises have formal strategies considering the focus on strategy implementation. Another gap is in the location of organizations studied, which are mainly
in Kiambu County and may not be general sable to those operating elsewhere. Another gap in the above studies is in the research design. Case studies have their limitations. They are ideal in rare cases where large samples of similar participants are not available. Small enterprises are unlikely to be classified as rare and surveys may be more representative. This research therefore seeks to bridge these gaps and specifically explore the practices of strategic management and how these affect the performance of these small enterprises in Kiambu Town.

1.3 Purpose of the Study
This study sought to establish strategic management practices and how they relate to performance of small scale enterprises: a case study of Kiambu Town.

1.4 Research Questions
1.4.1 What is the effect of reaction to competitor actions as a strategic management practice on performance of small enterprises in Kiambu Town?
1.4.2 What is the effect of product differentiation strategic management practice on the performance of small enterprises in Kiambu Town?
1.4.3 What is the effect of strategic innovation practices on the performance of small enterprises in Kiambu Town?

1.5 Significance of the Study
This study will be a light and source of knowledge to a variety of stakeholders. These include:

1.5.1 SMEs in Kiambu County and in Other Counties
Small and Medium Enterprises both in Kiambu and other counties across the country will benefit from the present study as they will be better informed on which strategic management practices lead to superior performances, that is whether investment in personnel and skills, reaction to competitor actions or product differentiation. This will inform their strategic direction and help enhance their performance.

1.5.2 Policy Makers
The government of Kenya has embraced a policy on entrepreneurship and thus can use the findings of this research in assisting small scale business owners to come up with
strategies through providing a structured training and capacity building as way of strengthening this very important contributor of economic growth.

1.5.3 Stakeholders and Managers
The findings may be used as a way of maintaining or improving service delivery and efficiency. Stakeholders in the small scale enterprises and other managers in Kiambu County, including those of county government may adopt these practices expecting to improve the effectiveness and efficiency of their small and medium sized companies and accrue benefits similar to those produced or advertised in the large sector.

1.5.4 Scholars and Academicians
To the scholars, this study will add value to the existing body of information on the small and medium sized enterprises (SMEs) and act as future reference for scholars and academicians. The information will add more depth to the knowledge they have in strategic management. For future reference and further research, this study will give a strong base of future reference.

1.6 Scope of the Study
The study dwelt on the influence of strategic management practices on performance of small scale enterprises in study of Kiambu County. The variables that were analyzed were investment in personnel and skills as a strategic management, the importance of reaction to competitor actions as a strategic management practice on product differentiation as a strategic management practice relate to performance of small enterprises in Kiambu Town? The researcher encountered quite a number of challenges related to research and most particularly during the process of data collection. During the study, the researcher travelled to different parts of the county within to access the respondent. Some respondents were hard-pressed to assist with data collection. The study also faced time limitations especially that the researcher is an employee of an organization in town and she was moving from her work station to another and to another town. The duration that the study was conducted was limited to three months running from July to September 2017, and therefore exhaustive and extremely comprehensive research was not carried on strategic management practices. However, the researcher conducted the study within the time frame that was specified.
1.7 Definitions of Terms

1.7.1 Strategic Management
Strategic management refers to a set of decisions and actions that lead to formulation and implementation of plans to achieve an organization’s objective Pearce & Robinson (2015). For purpose of this study, these decisions are not necessarily in a formal strategic plan.

1.7.2 A Small enterprise
A business enterprise with between 1 to 50 employees (Government Sessional Paper No. 2 of 2005) and is a formally registered business with an annual turnover of between Kenya Shillings 8 to 100 million (World Bank).

1.7.3 Performance
Percentage increase in profitability comparative to the previous year (2012) as well as perceived return and regular clientele.

1.7.4 Strategic Management Practice
Strategic management practice is a systematic way of communicating to employees on what they are expected to do and what the performance and engagement parameters (Amyx, 2015).

1.7.5 Differentiation
The process of distinguishing a product or service from others, to make it more attractive to a particular target market (Blanchard & Thacker, 2004).

1.7.6 Skills
The expertise or talent to do a job or task (Hong, 2014).

1.7.7 Personnel
People employed in an organization or engaged in an organized undertaking such as military service (Quelch & Klein, 2006).

1.8 Chapter Summary
This chapter has established the background information on Small and Medium sized enterprises (SMEs) both globally and in Kenya, with special reference to the case study: Kiambu County. The foregoing chapter has explored the background to the study, the statement of the problem as well as the scope and limitations of the study and definitions
of terms. Chapter two will analyze literature study based on the research questions in chapter one. Research methodology is covered in chapter. The chapter delves into the research design, the target population of the study, the sampling design as well as the data collection procedure and data analysis techniques.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter reviews literature on the effect of performance management practices on employee productivity. The first section determines the influence of skills and personnel development to firm’s performance. The second section examines the influence of competitor reaction actions to the company performance. The third section looks at the influence of product diversification to the firm’s performance. The chapter ends with a summary of the literature review.

2.2. Effect of Reaction to Competitor Actions on SME Performance

2.2.1. Adopting New Technology

Change of technology has posed a great challenge to small businesses. Since the mid-1990s there has been a growing concern about the impact of technological change on the work of micro and small enterprises. Even with change in technology, many small business entrepreneurs appear to be unfamiliar with new technologies. Those who seem to be well positioned, they are most often unaware of this technology and if they know, it is not either locally available or not affordable or not situated to local conditions. Foreign firms still remain in the forefront in accessing the new technologies.

Rapid change in technology and the wide range of technologies available on the market entail difficulties in deciding efficient technology for the needs of many businesses (Longenecker & petty, 2000). Technology, a key component in strategic development is inevitable in the industrial development process (Thomas & Sparkes, 2000). The technology development is the driving force on enterprises to invest on novel technology more than their capacities (Kruger, 2000). Improved ability of SMEs to gain access to available knowledge and experiences will lead to increased competencies of the enterprises; can enhance their market share for global and local markets as rapid progress in technology constrains them to restructure their business process.

Change in technology stemming from product and process innovations contributes to technological uncertainty. Strategic responses involve capability building to respond quickly to changing market conditions. Such capability building usually involves investing in diverse resources and possessing a wide array of strategic options (Bowman,
Because technologically uncertain markets are likely to offer a greater number and range of threats and opportunities for firms to adapt and improvise, we expect competitive flexibility to be of crucial importance in an environment that is characterized by high levels of technological uncertainty. Certainly, the speedy progression in information and communication technology will momentously expedite global product development. Review of literature points to a mounting number of firms adopting global virtual teams endeavoring to develop global products. Such an international viewpoint in development of a product is abridged concisely in the international product road followed by a major transnational household product manufacturer.

According to Ocici (2014), the first strategy SMEs can use to improve their competitiveness in global markets involves the application and adoption of new technologies that effectively serve to reduce costs. A number of significant new technologies, which include the Internet and the microprocessor, help mitigate economies of scale and the gains traditionally associated with large-scale production. A classic example is the adoption of numerically controlled (NC) machine tools in the manufacturing industries. NC machine tools have contributed to a reduction in the minimum efficient scale (MES), or the level of output required to reach scale economies. This notion has received considerable attention in the popular press (Li et al., 2012).

Even the smallest of firms can engage in certain activities from plant watering to specialized legal services better than a giant corporation. So we see a spreading trend toward de-integration and subcontracting. New web-based information technologies are enabling SMEs to attain global marketing capabilities at very low costs (Woldie et al., 2008). SMEs are also using electronic commerce and internet-based access to products like financial and accounting management software systems that enhance organizational and management capabilities, while at the same time reduce the high costs associated with managing SMEs. Such products enable SMEs to create virtual warehouses, where they build direct links between manufacturers and final customers. But to properly take advantage of such internet-based financial and accounting systems, SMEs typically need to modify or change their organizational structure (Leitner & Guldenberg, 2010).
2.2.2 Research and Development

While it is true that a number of empirical studies relating R&D to firm size show that large firms undertake considerably more R&D, more recent evidence suggests that SMEs play an important role in R&D activity. Investment in innovative activities seems to be on the rise in SMEs. The National Science Foundation (1999) shows that total expenditures for industrial R&D by SMEs has increased by almost three times between 1985 and 1995 in the United States, while in the largest firms, the increase has been only about 20%. The National Science Foundation also found an increase in the R&D-sales ratio from 3.4% in 1985 to 3.9% in 1995 for SMEs, whereas the R&D-sales ratios of the largest corporations fell from 3.5% to 3.1%.

Innovation strategies are the response to competitive challenges or future opportunities (Li Atuahene & Gima, 2011). It invariably needs a purpose and, therefore, the introduction and identification of a new consumer need or the development of additional technology within the market place usually initiates the process. This is more commonly identified as the push-pull process (Tidd et al., 2011). Consequently, the key precipitating environmental factors for innovation are uncertainty, risk and change (Braganza & Ward, 2001). The generation of new ways of doing things, or new product or services, has tended to be the domain of research and development (R&D) as a response to the challenges of globalization, new and old knowledge combine to generate innovation.

R&D functions do not just create, or drive, innovation they are also charged with the dissemination of the outcomes. An innovation is of little practical use if it cannot be absorbed by the market, organization, process or service at which it is targeted (Brushoff, 2008). Afuah, (2013) provided empirical evidence that R&D not only generates new knowledge, but it also enhances an organization’s ability to assimilate existing knowledge. An associated body of empirical evidence allude that a growing number of companies have started developing international products with a view to address the globalization drawbacks.

Such internationally focused efforts towards the development of new products are ostensibly manifest in large multinationals as well as small firms, endeavoring to develop and design products geared towards the international market (Subramaniam et al., 2011).
After in-depth case studies of large Japanese multinationals, for instance, Takeuchi and Porter (2006) found that products were developed with the global market in mind from the start in more than three-quarters of the product categories examined.

2.2.3 Strategic Alliances

Alliances are constructed as effective means to acquire access to new markets and special expertise or compete with others on the market. Today, enterprises of all sizes will have to depend more heavily on worldwide networks of communications and transportation and establish virtual organizations to remain responsive and flexible. To adopt agile manufacturing practices, they have to organize them into new teams as new opportunities arise. Speed-to-market practices require companies to adopt concurrent engineering in which all aspects of a product’s development are planned simultaneously rather than waiting for R&D phases to end before testing them with customers and developing marketing and service strategies. Cross-functional teams representing engineering and design, marketing, purchasing, distribution and service departments and customer representatives, some of whom are scattered widely in different cities or countries is becoming part of the product development process (Smith, 2003).

Globally competitive firms will have to enter into international strategic alliances more aggressively in the future and in this light the Kenya Revenue Authority has adopted various types of strategic alliances with Professional bodies, Business community, Clearing Agents and other East African countries to cope with the challenges of globalization. Marketing of manufacturing products and services through public education, billboards advertising, and media broadcasting can furnish a deep understanding of customer needs and demands. This help to reduce the cost of service delivery. An operation has the knowledge and experience to cost effectively produce and deliver the product to the market (Smith, 2003).

Just as alliances geared towards reducing supplier costs or improving the quality supplied can greatly affect the productivity and attractiveness of the firm’s own products and services to its customers (Das & Teng, 2000). Globally competitive enterprises will not only have to manage their own internal operations effectively, but coordinate the entire value chain of suppliers and distributors on which they depend (Maslen, 2015).
2.3 Effect of Product Differentiation on SME Performance

2.3.1 Building a Differentiation Quality Base-Advantage

Firms practicing differentiation seek to design and produce highly distinctive or unique product or service attributes that create high value for their customers. Within the firm, differentiation-based sources of competitive advantage in value-adding activities can be built through a number of methods. An important strategic consideration managers must recognize is that differentiation does not mean the firm can neglect its cost structure. While low unit cost is less important than distinctive product features to firms practicing differentiation, the firm’s total cost structure is still important. In other worlds, the costs of pursuing differentiation cannot be so high that they completely erode the price premium the firm can charge. Firms pursuing differentiation must still control expenses to balance somewhat higher costs with a distinctive edge in key activities. The cost structure of a firm or business pursuing a differentiation strategy still needs to be carefully managed, although attaining low-unit costs is not the overriding priority.

A firm selecting differentiation must therefore aim at achieving cost parity or, at the very least, cost proximity relative to competitors by keeping costs low in areas not related to differentiation and by not spending too much to achieve differentiation. Thus, the cost structure of a firm practicing differentiation cannot be that far above the industry average. Also, differentiation is not an end in itself; companies must continue to search for new ways to improve the distinctiveness or uniqueness of their products/services. 7-Eleven (formerly Southland Corporation) has practiced differentiation to avoid direct competition with large supermarket chains. It offers consumers greater convenience in the form of nearby location, shorter shopping time, and quicker checkout.

It achieves these benefits by designing a business system within the value chain that is different from that of supermarket chains in several key respects smaller stores, more store locations, and narrower product line. Its approach is higher cost than that of supermarket chains, so 7-Eleven must ordinarily charge higher prices to achieve profitability. However, customers are generally willing to pay a premium in exchange for the greater convenience 7-Eleven provides. 7-Eleven still services for cost parity, however, by buying merchandise in bulk and keeping close control of inventory. Its current management team is placing renewed emphasis on cost reduction by introduction
computerized ordering and tracking systems in U.S stores for even better product
turnaround and inventory control.

Starbucks Coffee has grown at an annual rate exceeding 30 percent over the past decade
as it rolls out its distinctive and specialized blends of coffee through United States. Once
a Seattle-based coffee-bean retailer that pioneered the concept of uniquely blended
coffees, Starbucks has grown to almost 1,800 outlets throughout the country and is
currently opening up a new location almost every day. For the unique flavour of
Starbucks’ premium coffees and ice coffee drinks, the company can charge upward of $3
per servings. To remain ahead of other competitors such as Dunkin’ Donuts and even
smaller specialized coffee chains, starbucks has begun to roll out an increasing number of
different types of beverages that capture and retain its premium image. The Starbucks
concept and image have become so popular that it is now serving new types of cold, fruit
flavored drinks like Tiauzzi to expand beyond coffees along. More recently, it has begun
to sell many of its ice coffee drink mixes (e.g., Frapuccinos) through grocery store chains
and other retailers.

In almost all differentiation strategies, attention to product quality and service represent
the dominant routes for firms to build competitive advantage. For example, firms may
improve a product’s quality or performance characteristics to make it more distinctive in
the customer’s eyes, as Lexus does with its sleek line of automobiles or Tiffany &
Company does with its broad line of jewellery and gift items. The product or service can
also embody a distinctive design or offering that is hard to delicately, thus conveying an
image of unique quality; as with Krups coffee and espresso makers or with American
Express in travel services and charge cards. After-sales service, convenience, and quality
are important means to achieve differentiation for numerous firms, such as for IBM in
computer and electronic commerce technology or Hewlert-Packard in desktop printers
and digital imaging technologies.

The practice of product differentiation is highly essential because it enhances interest in
the products offered by an enterprise. It is massively crucial to underscore the fact that
product differentiation has been used successfully by numerous corporate entities
including multinational establishments. This is an indicator of the significant role played
by the strategic management practice of product differentiation. The ability of an
enterprise to offer unique products is inherently associated with success (Cesnovar, 2016).
It is also essential to highlight that product differentiation focuses on the expectations or needs of different target markets. The expectations of different target markets are associated with high standards of variation. In view of such aspects, it is crucial to zero in on the specific preferences and tastes of each target market (Thompson, 2010). This acts as a helpful platform for efficiency from the perspective of competition. Based on these aspects, it is notable that product differentiation is an essential element within the entire framework of strategic management.

### 2.3.2 Dealer Network Differentiation

Barney and Hesterley (2016) argues that, “product differentiation is ultimately an expression of the creativity of individuals and groups within the firms. It is limited only by the opportunities that exist, or that can be created, in a particular industry and by the willingness and ability of firms to creatively explore ways to take advantage of those opportunities. One way in which a firm can reduce cost is by dealing directly with end customers. DELL, for instance, served its customers with high performance computers at relatively low price. Personal Computers were customized according to buyers' specifications, and assembly started only after Dell received the order.

By reaching straight to the customers, it helps to reduce the costs for distribution channels in which PCs flow from manufacturers to customers via retail stores, distributors, resellers and direct distribution. Also, knowing what is the customer's wants and needs facilitate in building strong relationship between a firm and its customer, creating loyalty. This special service is a form of product differentiation. Though distribution channels are a form of product differentiation as well, I believe the benefits of serving the customers directly would outweigh the benefits gained through various distribution channels or at least equalized. Therefore, firm using distribution channels initially can try to switch to this approach to reduce costs.

With these differentiation features, firms provide additional values to customers who will reward them with a premium price (Drew & Smith, 2007). Firms that achieve a differentiation strategy often have access to leading scientific research, highly skilled and creative product development team, strong sales team with the ability to successfully articulate the perceived strengths of the product and corporate reputation for quality and innovation (Baum & Oliver, 2012). Successful differentiation is based on a study of buyers’ needs and behavior in order to learn what they consider important and valuable.
(Barney, 2011). The desired features are then incorporated into the product to encourage buyer preference for the product (Drew & Smith, 2007).

The basis for competitive advantage is a product whose attributes differ significantly from rivals’ products. Efforts to differentiate often result in higher costs. Profitable differentiation is achieved by either keeping the cost of differentiation below the premium price that the differentiating features command, or by offsetting the lower profit margins through more sales volumes (Grant, 2000). With the differentiation strategy, on the other hand, the unique attributes or perceptions of uniqueness and characteristics of a firm’s product other than cost provide value to customers (Barney, 2011). The firm pursuing differentiation seeks to be unique in its industry along some dimension that is valued by customers, which means investing in product R&D and marketing. It is the ability to sell its differentiated product at a price that exceeds what was spent to create it that allows the firm to outperform its rivals and earn higher returns (Dess and Davis, 2014).

2.3.3 Differentiation through Packaging

Packaging is the process of conceptualizing, planning, and designing a packet or wrapper to contain, protect and merchandise a product (Kotler 2013). In modern time marketing, if packaging does not sell a product, it is as good as worthless. Highlighting the role of packaging in marketing or communicating a distinguished advertising practitioner, Chris Doghduje, observed that “packaging sells even more than advertising” (Nwokoye, 2007). That is because most goods like cosmetics and others have little or no advertising support. But they must be packaged. The vital function of packaging is achieved by designing a package to attract consumer’s attention at the point of purchase, to furnish consumers with needed information about the product, so as to provide the on-the-spot persuasion and incentive that is often vital to make sales or required to propel consumers into buying.

The importance of consumer packaging was elevated in the United States during the late 1970s and 1980s. Rapid post war economic expansion and market growth waned during that period, forcing companies to increase and entice consumers to their product or brand at the expense of the competition. The product mix or component is not complete without packaging. Packaging in developing countries would sound to be out of place when we still see market women and traders rap their wares with banana leaves, old xii newspapers
and green leaves. These traditional methods of packaging, notwithstanding, the need for packaging is growing fast.

According to Rita (2009) packaging attracts consumer’s attention to particular brand, enhances its image, and influences consumer’s perceptions about a product. Also package imparts unique value to products (Underwood, 2014) works as a tool for differentiation, i.e. helps consumers to choose the product from wide range of similar products, stimulates customers buying behavior (Wells, Farley & Armstrong, 2007). Thus package performs an important role in marketing. The pack, according to Unilever International, has become an integral part of the product; without it, there would be no brand and no freedom of choice. On display, the pack becomes a silent assistant in the choice process. This is why products are packaged not just for easy identification but to compel buying actions.

The key factor for success (KFS) in packaging is the application of the marketing approach in product packaged to contain, protect, and merchandise a given product (Nwokoye, 2007). The marketing approach to product packaging takes cognizance of the fact that every product communicates a message, and in view of this, a product must be packaged to communicate the desired message to the target market. To effect a proper packaging, your image or personality of the product must be totally different from that of any other product. The ultimate challenge is to make your package distinct and unique so that it is instantly recognised whether alone or when placed side by side with other packages.

Good packaging may also induce higher levels of customer satisfaction. If satisfaction is linked to loyalty, packaging development can be a strategic tool to help increase and retain consumer loyalty. Poor understanding of the role of packaging, and poor package design, could lead to reduced consumer loyalty. Thus, in competitive cosmetic markets, one way many firms can develop their products is through their packages. Packaging is likely to affect purchase decisions and may be able to hold consumers who might otherwise defect to other brands.

Findings in the study by Gupta (2009) also show that effective packaging is positively correlated with impulse buying behaviour in the cosmetics industry, which justifies the use of sales purchasing in that industry. Desired value (or preferences) is a key buying criteria of customers before using or buying a product; and received value is performance
of a product that customers receive when or after using a product. Received value may lead directly to the formation of overall satisfaction. To make sure that they keep customers satisfied, sellers must determine what customers want and require, the key buying criteria that they use to help satisfy those desires, and measure customer satisfaction (Woodruff, 2009).

Package may be what attracted the consumer’s attention so that they would even consider purchasing the product. A good package can help initially draw consumers toward intent to buy and even the purchase decision. Packaging is also one of the few product attributes that directly communicate messages about the product to the target consumers. The design package features have an implication on how the product is perceived and whether the package is noticed as it will regularly have to be conspicuous in a display of many other products (Nancarrow et al, 1998). The results of testing with eye-scan apparatus show that the movement of a customer’s eyes tracks across a display of packages. Different packages can be noticed against competitors’ packages. However, eye movement does not necessarily mean attention is being paid.

Studies in psychology on brain capabilities reveal that remembrance is better for non-verbal stimuli when copy is on the left-hand side of the package and better for verbal stimuli when they are on the right-hand side of the package (Rettie and Brewer, 2000). Eye movement however does not essentially mean consideration is being given. According to Nancarrow et al. (1998), the variance in the positioning of the elements and perception may make the difference between missing the item and identifying the same by scanning packages in the beauty shop. Thus, lateral positioning on the package and other usually recognized factors may influence recall of package elements. These are just a few brief examples which illustrate that design of packages will play a major role in gaining attention and communicating message to consumers.

Furthermore, product appearance or packaging can provide value in itself; many people like to buy a product that looks aesthetically pleasing. As the consumers choice is often complex. It is difficult to decide upon during the product development process. For example, a product with bright color may be valued, but these same colors may give consumers the idea that the product is of low quality. To be able to give guidelines for packaging following from its influence on the consumers’ product choice, it is necessary to first answer the question of what exactly constitutes the value of a product package for
consumers. Consumers’ satisfaction is the ultimate goal of any sustainable business. Walter and Lancaster (1999) have stated that value is created by any product or service’s attitude, which motivate the consumer to buy product. According to Woodall (2003), attribute of products and services which helps to create consumer value can be divided into two groups, namely: (a) factors that decrease customers cost (b) factors that enhance customers need. Packaging must perform money task, it must attract features and give confidence to the consumer.

2.4 Effect of Strategic Innovation Practices on SME Performance

2.4.1 Market Innovation

Dexterous market champs recognize the particular means whereby various customers buy. They appreciate that a number of their customers will have a fondness for particular types of products as opposed to others who will prefer quite different products (Narver & Slater, 2013). According to Mitchell (2013), market innovation focuses on cultivating the mix of how chosen markets are best served as well as how markets are targeted. Its objective is to recognize better ways to serve target markets and identify potential markets. Profitability in many markets is realized with the ability to sell to different buyers, the same principal offering at different prices. What dexterous market champs recognize is that the same can be distinguished by fluctuating the support, implying that the same principal offering can be offered pretty distinctly to various market segments (Hurley & Hult, 2014), if the objective is to as closely as possible meet buyers’ preferences.

Concern for the internal capability strength is too restricting a standpoint when, as is progressively the case, external competitive considerations are changing fast (Hamel & Prahalad, 2012). This tactic is relatively dissimilar from the approach that evaluates choices from the standpoint of core capabilities or competences. To evaluate alternative approaches vis a vis against the occasions open to a business, companies that are high performing deal with the market side of the business equation. There is a healthy tension between key competences and market opportunities among companies (Grant, 2015).

Market-focused competencies among high performing companies are essentially derived from the much-researched construct market orientation, which is composed of attitudes and behaviors that create “superior value for buyers and, thus, continuous superior
performance for the business’’ (Narver & Slater, 2013). Two conceptualizations of market orientation among commercial banks dominate the literature: one defined in terms of the three behavioral components customer orientation, competitor orientation, and inter functional coordination (Narver & Slater, 2013) and the other in terms of three firm activities information generation, information dissemination, and responsiveness (Kohli & Jaworski, 2013), marketing outcomes (i.e., responsiveness defined by Kohli and Jaworski (2013) as the design of plans based on market intelligence and the execution of such plans) and operational competencies (i.e., inter functional coordination) as marketing competencies. In this way, the responsiveness dimension of market orientation as conceptualized by Jaworski and Kohli (2012) is a form of innovative behavior.

Hurley and Hult (2014) agree that responsiveness should be separated from the information components of market orientation; specifically, they argue ‘‘that translating market intelligence into action is part of a larger planning and decision-making process that affects even internally oriented changes’’ and that innovations (i.e., the response) will follow from the understanding of market intelligence. Similarly, inter functional coordination is defined as the ‘‘coordinated utilization of company resources’’ (Narver and Slater, 2013) and is an operational competency rather than a marketing competency. Moreover, prior research has advocated uncoupling the market orientation components because an aggregate construct may ‘‘limit its strategic value for management practice’’ (Lukas & Ferrell, 2011). Adopting these recommendations in the present study, responsiveness and inter functional coordination are detached from market orientation to define market competency as the gathering and dissemination of information about customer- and competitor oriented needs, behaviors, and intent.

Although Narver and Slater’s (2013) components of market orientation have been found to relate significantly to innovation (Han et al., 2011), the literature concerning the exact relationship between innovation culture among commercial banks and market orientation has been equivocal. Hurley and Hult (2014) model market orientation as an antecedent of an innovative culture while Menon and Varadarajan (2010) suggest that an innovation culture encourages information dissemination (one of Kohli and Jaworski’s (2013) market orientation components), which implies that innovation orientation is an antecedent of market orientation.
2.4.2 Product Innovation

Product innovation consists of firms developing new products or new production processes to better perform their operations, in which case the new products could be based on the new processes (Tufano, 2011 & Lawrence, 2010). Product innovation is viewed as the act of creating and popularizing new products, technologies, institutions and markets, which facilitate access to information, trading and means of payment (Solans, 2012). For instance, a prominent product innovation in the banking industry is mortgage loans. In 1980, long-term fully amortizing fixed-rate mortgages were the norm and this product was offered primarily by thrift institutions Pasha (2010). Moreover, these loans required substantial down payments and a good credit history and the accumulated equity was relatively illiquid.

The process of developing and bringing new or substantially better products or services to market has been consistently used in the literature to define product innovation (Hauser, Tellis & Griffin 2015). For further clarification and distinction, product innovation can be divided into three basic types: product line extensions (familiar to the organization but new to the market), me-too products (familiar to the market but new to the organization), and new-to-the-world products (new to both the organization and the market) (Booz, Allen & Hamilton, 2013).

The intention of product innovation is to modify the functionality of the product in some manner to enhance value to the consumer or the organization (OECD, 2013). Product innovation has been cited by researchers on multiple occasions as a necessary element for long-term firm survival (Chandy and Tellis, 2013). To summarize, most researchers and practitioners indicate that product innovation is market focused and involves substantial change to some tangible feature of the product or service, often referenced as formulation or functionality modifications.

2.4.3 Process Innovation

The process alignment is designed to derive a quantified benefit to meet and outperform competition. Creation and optimization of process therefore goes beyond tools and practices. Custodians of a process differentiation logic views of how people connect in the work-flow of a process, carry out tasks, and define the outcomes benefit experiences,
and where and how value happens, what are likely obstacles/pitfalls, eventually how it produces (and retains) a sustainable value for competitive advantage (Rose, 2013). There are a number of success factors found among best-in-class organizations that have embraced a culture of operational excellence. They include support from the top, the integration of initiatives into the firm’s strategy, cooperation from business units, a common language, credibility within the organization and ability to measure results. Operations competency relates to all management-controlled activities that affect the work of an organization—the processes and way of working and the formal and informal organization design, including how management views work process change and all communication channels (Longstaff & Rajan, 2012).

Innovation-oriented firms specifically develop operational competencies that facilitate new learning, continuous change, and improvement in administrative and work processes and encourage gathering and disseminating information from an array of sources to improve the mechanisms and processes within the firm. Many authors have discussed this aspect of innovative firms by emphasizing the existence of quality and continuous improvement in processes and production (Damanpour, 2015; Troy, Szymanski, and Varadarajan, 2011). Process innovation is a normative framework developed for identifying efficient service strategies for the different institutional settings, especially those enabled by modern information and communication technologies.

Process innovation holds business process reengineering and quality function deployment (Cumming, 2014). Process innovation is significant in the support part of any offer as well as the core product supply. Both constituents of an offer necessitate quality principles to be reached and maintained. The process innovation management is a predominantly challenging activity in the case of services, which owing to their very characteristics rely on individual interactions to achieve results (Johne & Storey, 2014). Over time, an effectual contractor who keeps improving on productivity advances can expect to produce products that offer the same level of performance at a lower cost. Cost reductions like that may, or may not, be reflected down to the consumers in the form of lower prices (Cumming, 2014).

The issue of offering the right atmosphere for innovation is dominant to the debate on whether the capacity to innovate is a developing organizational property amenable to systematic management or a personal attribute predominantly. Owing to the widespread
nature of innovation within individuals, managers are directly faced with the Catch-22 regarding channeling talent and recruitment in a way that is in line with the organizations goals. It is not always easy to manage truly creative persons (Djellal, 2014). It is key to guarantee that measures are in place to inspire innovation, whilst also offering a methodical approach to, through to commercialization, manage the new product process. Then again, there are those that are disbelieving that distinct entrepreneurial character exists. More vital is that a company forms are supple so that a suitable equilibrium between freedom and order is maintained.

As initially perceived of, the marketing concept maintains that all company activities be gravitated towards the principal goal of satisfying customers’ needs. It is barely astounding that ensuring customers’ needs act as the main innovation driver is considered to be an acute issue (Fifield, 2014; Foxall, 2013). Firms that are market-oriented are also acknowledged to pay a great deal of consideration to market research preceding development and production of new products. Organizational procedures and structures reflect a market-orientation, and all employees are anticipated to be strictly customer-focused. (Djellal, 2014). To the market-oriented firm, it is an alien idea to push products at customers. The prime goal rather, is to take advantage of customers’ needs in such a way that new products produce their own source of advertising momentum.

2.5 Chapter Summary

This chapter reviewed literature on the influence of strategic management practices on performance of small scale enterprises. The first section discussed the training and skill development as a source of competitive advantage, the second section looked at the fighting the competitors as a strategic management practice and the third research question discussed differentiation as a source of competitive advantage to Small scale and medium enterprises. The next chapter deals with the research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter starts by addressing the research design of the study. It then goes on to discuss the population, sample size and design. The research procedures are also discussed. Under the research procedures, the chapter reviews the method of pre-testing that were adopted. The chapter further discusses the data collection procedures and data analysis methods to be used. A summary of the chapter is provided at the end.

3.2 Research Design
This study adopted a descriptive survey that attempted to identify and explain variables that exist in a given situation and to describe the relationship that exists between these variables in order to provide a picture of a particular phenomenon (Sandberg, Robinson & Pearce, 2011). Descriptive research is considered to be appropriate because subjects are normally observed in their natural set up which can result in accurate and reliable information (Sexton & Auken, 2012). The descriptive survey research helped in describing phenomena or narrating how various behaviors and events occur. Therefore it was useful in establishing the influence of strategic management practices on performance of small scale enterprises in Kiambu County.

3.3 Population and Sampling Design
3.3.1 Population
Shepherd and Wiklund, (2015) describe a population as the total collection of elements whereby references have to be made. In this study the population consists of all Small and Medium Enterprises in Kiambu County. According to CBS, ICEG and K-Rep (1999) SME Baseline survey results, the total number of enterprises per 1,000 residents of the Kenyan population is 43 SMEs. The Baseline survey shows that there are approximately 92,160 SMEs in Kiambu County in 1999 and a total of 1.3 million SMEs in the entire country employing 2.4 million people. The present study however narrowed down the scope to Kiambu town owing to the concentration of SMEs within the town center. This both eased the data collection exercise and reach a diverse range of SMEs from manufacturing to service oriented within a manageable geographic span.
3.3.2 Sampling Design and Sample Size

3.3.2.1 Sampling Frame

According to Mankins, (2015) sampling frame is an objective list of the population from which the researcher can make a selection. The sampling frame was obtained from the East African Business Directory Website as at 18th October 2016. The directory has Kenyan businesses organized as follows: Automobile Spare Parts Dealers; Electronics: Dealers / Wholesalers; Foodstuff: Distributors/Wholesalers; Lubricants / Oil: Wholesalers; Textile & Garments: Dealers; Perfumes & Cosmetics: Importers; Manufacturers; Mobile Phones: Dealers; Tyres, Tubes, Batteries dealers; Heavy Equipment & Machinery; Hotels, Restaurants; Business Houses; Paper & Paper Products Dealers; Plastics & Packaging; Computer Hardware / Software; Used/New Car Dealers; Business Consultants; Financial Services / Banks; Transport & Aviation; Freight Forwarders / Agents; General Traders / Merchants. The selection will be guided by the need of obtaining units with relative homogeneous characteristics from general traders.

3.3.2.2 Sampling Techniques

Multistage sampling and stratified method were used in this study. Multistage makes repeated selection at different levels with the first stage corresponding to the selection of elements called primary units. At the second stage, subsets called secondary units were randomly selected from within each primary unit and the procedure repeated until the final stage. In cluster sampling, the population is divided into mutually exclusive subsets. Pervez and Kjell (2002) argue that using all the sample elements in all the selected clusters may be prohibitively expensive and not necessary. Under these circumstances, multistage cluster sampling becomes useful. Instead of using all the elements contained in the selected clusters, the researcher randomly selects elements from each cluster. The technique is used frequently when a complete list of all the members does not exist (Vicere, 2015).

According to Sathe (2015), stratified random sampling involves apportioning the target population into a number of strata or groups, in which case the group members share particular features. Further, within the strata, random sampling is conducted. In this type of sampling further, Sathe (2015) adds that proportionate sampling is customary, that is,
where the numbers in the groups chosen for the sample replicate the comparative numbers in the target population.

### 3.3.2.3 Sampling Size

Ligthelm and Van Wyk (2005) describe the sample size as a smaller set of the larger population. The sample size for this study was statistically determined based on a precision of 5% and a confidence level of 95% according to Saunders, Lewis and Thornhill (2003) guide for different population sizes at 95% level of confidence. Table 3.1 was employed in this regard, as developed by the Research Advisors (2006). The determined sample size as indicated, given the target population at 92,160, is thus 383 SMEs.

#### Table 3.1: Sample size Determination

<table>
<thead>
<tr>
<th>Population size</th>
<th>Confidence = 95.0%</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Degree of Accuracy / Margin of Error</td>
<td>0.05</td>
<td>0.035</td>
<td>0.025</td>
</tr>
<tr>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>100</td>
<td>80</td>
<td>89</td>
<td>94</td>
<td>99</td>
</tr>
<tr>
<td>1000</td>
<td>278</td>
<td>440</td>
<td>606</td>
<td>906</td>
</tr>
<tr>
<td>10000</td>
<td>370</td>
<td>727</td>
<td>1332</td>
<td>4899</td>
</tr>
<tr>
<td>50000</td>
<td>381</td>
<td>772</td>
<td>1491</td>
<td>8056</td>
</tr>
<tr>
<td>75000</td>
<td>382</td>
<td>776</td>
<td>1506</td>
<td>8514</td>
</tr>
<tr>
<td>100000</td>
<td>383</td>
<td>778</td>
<td>1513</td>
<td>8762</td>
</tr>
</tbody>
</table>


The determined sample was distributed as elaborated in table 3.2.
### Table 3.2 Sample Distribution

<table>
<thead>
<tr>
<th>Business area</th>
<th>Population</th>
<th>% Proportion</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile Spare Parts</td>
<td>4424</td>
<td>4.8</td>
<td>18</td>
</tr>
<tr>
<td>Electronics</td>
<td>12810</td>
<td>13.9</td>
<td>53</td>
</tr>
<tr>
<td>Mobile phones and accessories</td>
<td>15852</td>
<td>17.2</td>
<td>66</td>
</tr>
<tr>
<td>Freight forwarders</td>
<td>3041</td>
<td>3.3</td>
<td>13</td>
</tr>
<tr>
<td>Manufacturers</td>
<td>10045</td>
<td>10.9</td>
<td>42</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>4239</td>
<td>4.6</td>
<td>18</td>
</tr>
<tr>
<td>Foodstuff</td>
<td>7834</td>
<td>8.5</td>
<td>33</td>
</tr>
<tr>
<td>Transport and aviation</td>
<td>8571</td>
<td>9.3</td>
<td>36</td>
</tr>
<tr>
<td>Cyber and computers</td>
<td>10230</td>
<td>11.1</td>
<td>43</td>
</tr>
<tr>
<td>Textile and garments</td>
<td>7465</td>
<td>8.1</td>
<td>31</td>
</tr>
<tr>
<td>Salon &amp; Cosmetics</td>
<td>7649</td>
<td>8.3</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>92,160</td>
<td></td>
<td>383</td>
</tr>
</tbody>
</table>

### 3.4 Data Collection Method

The study used primary data collection, particularly through the use of questionnaires. According to Glasser and Strauss (2007), questionnaires are an imperative data collection instruments. It is warranted to use questionnaires since they are an effectual data collection method from a large knowledgeable sample at a reduced cost and in a shorter time span as compared to other methods. Questionnaires further facilitated easier coding of data collected and analysis. The questionnaires were structured, with closed ended questions with a view to ensure that respondents are restricted to certain categories in their responses. The questionnaire was structured into 5 parts. Part A focuses on the respondents’ demographic data while part B contains questions to the effect of determining the effect of reaction to competitor actions as a strategic management practice on performance of small enterprises in Kiambu Town. Part C focuses on the effect of product differentiation strategic management practice on the performance of small enterprises in Kiambu Town while Part D explores the effect of strategic innovation practices on the performance of small enterprises in Kiambu Town. The final part, E delves into SME performance.
3.5 Research Procedure
The researcher conducted sampling and identify different SME’s that have been in existence for the last 3-10 years in Kenya. A pilot test was carried out with a view to evaluate the completeness, precision, accuracy and clarity of the questionnaires. This ensured the reliability of the data collection instruments that were used. The questionnaires were administered to the SMEs entrepreneurs in Kiambu County. The questionnaires were both self-administered, for respondents that capable of reading and comprehending the questions and researcher-administered for respondents that needed assistance in reading and comprehending the range of questions asked. Owing to the relatively large sample size, the researcher recruited five (5) research assistants who were taken through the research objectives and ethics to observe in the course of data collection, as well as challenges to expect and how to overcome them.

3.6 Data Analysis
All responses were coded and entered into Statistical Package for Social Sciences (SPSS) for analysis. The data was analyzed using descriptive statistics indexes such as frequency tables and percentages as well as inferential statistics particularly Pearson Correlation and Multiple regression analysis. The following regression model were used in this regard.

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \]

\( Y \) = SME Performance
\( \alpha \) = Constant term
\( \beta \) = Beta Coefficients
\( X_1 \) = Reaction to competitor actions
\( X_2 \) = Product differentiation
\( X_3 \) = Strategic innovation practices
\( \varepsilon \) = Standard Error

The results of the study were presented using tables and figures by use of Statistical Package for Social Science (SPSS).
3.7 Chapter Summary

This chapter presents the various methods and procedures the researcher were adopted in conducting the study in order to answer the research questions raised in the first chapter. The chapter is organized in the following ways: the research design, population and sample, data collection methods, sampling design and sample size, research procedures and data analysis. The next chapter delves into an analysis of findings.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

The present study set out to establish strategic management practices and how they relate to performance of small scale enterprises: a case study of Kiambu Town. More specifically, the study sought to answer the research questions: What is the effect of strategic innovation practices as a strategic management practice on the performance of small enterprises operating in Kiambu Town?; what is the importance of reaction to competitor actions as a strategic management practice on performance of small enterprises in Kiambu Town?; and what is the effect of product differentiation strategic management practice on the performance of small enterprises in Kiambu Town?

4.2 Response Rate

A response rate of 81.8% was achieved with 81 respondents reached, out of the 99 targeted. This is considered excellent by Mugenda and Mugenda (2003) who postulate that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Findings are tabulated in table 4.1.

Table 4.1 Response Rate

<table>
<thead>
<tr>
<th>Questionnaires</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returned</td>
<td>281</td>
<td>73.4</td>
</tr>
<tr>
<td>Unreturned</td>
<td>102</td>
<td>26.6</td>
</tr>
<tr>
<td>Distributed</td>
<td>383</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.3 Reliability Test Results

The questionnaires were tested in a pilot study with a view to determine reliability. To this end, the Cronbach’s Alpha measure of internal consistency was used. Cronbach’s Alpha measures internal consistency by establishing whether certain items measure the intended variable. Nunnally (1978) established the Alpha value threshold at 0.7 which the study benchmarked against. The reliability test results are as presented in table 4.2.
As presented in table 4.2, all the scales were significant, having Alpha Coefficients above the prescribed threshold of 0.7. The highest level of reliability was recorded in Product differentiation (α=.821) followed by Strategic innovation practices (α=.817). Reaction to competitor actions was also reliable at an Alpha level of .796, as was Performance at .728. The study thus found that the data collection instrument was reliable and could be used in the main study further investigation.

### 4.4 Respondent Demographic Information

This section presents respondents’ demographic information with regard to gender, age bracket, highest level of education and length of service.

#### 4.4.1 Response by Gender

In order to show the gender distribution and parity across the SME owners reached in the survey, the study sought to determine the respondents’ gender. Respondents were thus required to indicate by selecting either male or female response categories provided. Results are presented in figure 4.1.

![Figure 4.1 Response by Gender](image-url)
As presented in figure 4.1, male respondents (63.1%) recorded the majority as compared to their female counterparts (36.9%). It follows then from the finding, that males make the dominant gender among SME owners in the study area. The result also implies that both genders were reached in the study hence representative of the diverse perspectives on pertinent issues relating to the influence of strategic management practices on performance of small scale enterprises as experienced by respondents of either gender.

4.4.2 Response by Age

The study deemed age an important demographic characteristic, in order to have an overview of age distribution among SME owners in the study area. Age was also deemed a relative indicator of respondents’ length of experience on matters pertinent to the study objectives. Figure 4.2 presents the findings.

![Figure 4.2 Response by Age](image)

Results as illustrated in figure 4.2 reveal that a majority of respondents (33.4%) fall within the 36-45 years age category closely followed by 28.3% of respondents falling within the 26-35 years while 19.1% age 46-55 years. A further 10.1% was aged 55 years and above while only 9.1% of respondents aged between 18 and 25 years. As such, it can be deduced that age across a majority of SME owners in the study area is youthful, distributed between 26 and 45 years. The finding also implies that a majority of respondents have an adequate wealth of experience with issues pertinent to the influence of strategic management practices on performance of small scale enterprises in the study area.
4.4.3 Response by Level of Education

Respondents were further asked to indicate their highest levels of education. This would serve to show the literacy levels as indicated by academic backgrounds among SME owners in the study area. Findings are as shown in figure 4.3.

![Educational Levels](image)

**Figure 4.3 Response by Education Level**

From the findings, a majority of respondents (30.6%) indicated having attained a Diploma level, followed by 28.1% having attained a Certificate while 23.1% had a Bachelors degree. Only 18.2% had a Post-graduate degree. The finding indicates that the levels of education and therefore literacy levels among a majority of SME owners in the study area are relatively high. As such, respondents ideally were in a position to comprehend the survey questions in relation to the influence of strategic management practices on performance of small scale enterprises in the study area.

4.4.4 Response by Length of Service

As some adequate length of experience by respondents was necessary in establishing the study objectives, respondents were asked to indicate the number of years their establishments had been in operation. Figure 4.4 illustrates the findings.
As illustrated in figure 4.4, a majority of respondents (39.2%) have been working in their respective businesses for between 6 and 10 years. This was followed by 26.5% having worked for between 11 and 15 years then distantly followed by 12.6% who have worked for between 16 and 20 years. Only 11.9% and 9.8% of businesses were found to have been working in their respective businesses for either less than 5 years or above 21 years respectively. The results reveal a rather skewed distribution across the years representing the length of service among the respondents reached, albeit indicating that a majority of businesses reached are richly experienced, with a majority having worked for over 6 years.

4.4.5 Area of Business

The study sought to establish the type of business the various SMEs engage in. This serves to give the researcher an overview of the operations taking place in the SME sector in the study area. Findings are as illustrated in figure 4.5 below.

![Figure 4.5 Response by Area of Business](image)
As illustrated in figure 4.5, a majority of respondents (17.2%) were found to engage in mobile phone and accessory business; followed by 13.9% in electronics business then 11.1% in cyber and computer accessory business then 10.9% in manufacturing. Other areas of business targeted were also reached including transportation and aviation (9.3%), foodstuff (8.5%), salon and cosmetics (8.3%), textile and garments (8.1%), automobile spare parts (4.8%), wholesalers (4.6%) and freight forwarders (3.3%). It follows then from the finding that the study is representative of responses and therefore experiences across a diverse area of business.

4.4.6 Number of Employees

The study further sought to determine the number of employees across the SMEs reached. This was meant to indicate the size of respective businesses reached. Findings are presented in figure 4.6.

![Figure 4.6 Response by Number of Employees](image)

**Figure 4.6 Response by Number of Employees**

As indicated in figure 4.6, a majority of SMEs reached have between 5-10 employees, followed by 25.6% with less than 5 employees then 19.3% with between 15 and 20 employees. A further 11.3% have 16-20 employees while only 9.2% have over 20 employees. As such, it can be deduced that the study managed to reach SMEs of different sizes hence representative of the different experiences and strategies practiced by SMEs of different sizes.

4.4.6 Response by Years in Business

The study further sought to find out the number of years in the various SMEs. This would indicate the length of experience by the various business reached. Findings are as illustrated in figure 4.7.
Figure 4.7 Response by Years in Business

As illustrated in figure 4.7, a majority of businesses (43.6%) have been in operation for between 5 and 10 years. This was followed by 33.3% having worked for between 15 and 10 years then distantly followed by 14.6% who have operated for less than 5 years. Only 4.3% and 4.2% of businesses were found to have been in operation for either between 16 and 20 years and over 10 years respectively. The results reveal a rather skewed distribution across the years representing the length of operation among the businesses reached, albeit indicating that a majority of businesses reached are richly experienced, with a majority having worked for over 5 years. Responses can thus be deemed to be informed by adequate experience on pertinent matters relating to the influence of strategic management practices on performance of small scale enterprises in the study area.

4.4.7 Formality of Strategic Plans

The study sought to find out the formality of strategic plans by the business reached. This would indicate the extent to which businesses in the study area employ strategic management practices and therefore the influence thereof on SME performance. Figure 4.8 below presents the findings.

Figure 4.8 Formality of Strategic Plans
As figure 4.8 above illustrates, a majority of respondents (76.4%) have formal strategic plans, while only 23.6% dissented. Probed to specify on the specific strategic plans, a majority of business cited formal goals, visions and missions guiding their operations. As such, it can be deduced that a majority of business formally employ strategic management practices. The study was further interested in determining the influence thereof on SME performance.

4.5 Competitor Reaction on Performance of SMEs in Kiambu County

4.5.1 Key Growth Indicators Across

The study sought to find out the trend of key growth indicators across the SMEs reached. This was in a view to determine performance among SMEs in the study area. Respondents were also given on a 5-point Likert scale where: 1= Decreased; 2= Decreasing; 3= Constant; 4 = Improved; 5= Greatly Improved. Findings are as presented in table 4.3.

Table 4.3 Performance of SMEs in Kiambu County

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>4.392</td>
<td>.7225</td>
</tr>
<tr>
<td>Number of customers</td>
<td>4.248</td>
<td>.8457</td>
</tr>
<tr>
<td>Number of employees</td>
<td>3.961</td>
<td>.7430</td>
</tr>
<tr>
<td>Number of branches</td>
<td>3.251</td>
<td>.7579</td>
</tr>
<tr>
<td>Stock</td>
<td>4.219</td>
<td>.8878</td>
</tr>
<tr>
<td>Capital</td>
<td>4.061</td>
<td>.7430</td>
</tr>
</tbody>
</table>

As presented in table 4.6, a majority of respondents indicated that their respective businesses had over the last 5 years improved in terms of Profitability (4.392), Number of customers (4.248), Stock (4.219), Capital (4.061) and Number of employees (3.961). A majority however indicated that the Number of branches (3.251) remained constant

4.5.2 Reaction to Competitor Actions

The study also sought to answer the research question, what is the importance of reaction to competitor actions as a strategic management practice on performance of small enterprises in Kiambu Town? To this end, respondents were asked to indicate the extent to which the importance of reaction to competitor actions as a strategic management practice influence the performance of their respective small scale enterprises. Responses were given on a 5-point Likert scale, where: 1= strongly disagree; 2= disagree; 3= neutral; 4 = agree; 5= strongly agree. Findings are presented in table 4.4.
### Table 4.4 Reaction to Competitor Actions

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>My business has adopted use of mobile money and card payments</td>
<td>4.357</td>
<td>.7424</td>
</tr>
<tr>
<td>My business has expanded to regional markets to counter competitor dominance</td>
<td>3.342</td>
<td>.7602</td>
</tr>
<tr>
<td>My business has adopted use of private label brands</td>
<td>3.719</td>
<td>.8913</td>
</tr>
<tr>
<td>Building brand presence through social media</td>
<td>3.861</td>
<td>.7430</td>
</tr>
<tr>
<td>My SME identifies competitors and determine the reasons for success of competitors and consider this in strategy formulation</td>
<td>4.339</td>
<td>.7636</td>
</tr>
<tr>
<td>We conduct market research regularly to find out customer preferences on various products we offer</td>
<td>3.623</td>
<td>.8888</td>
</tr>
<tr>
<td>We enter into strategic partnerships with key players in the market with a view to earn competitive advantage and increase market share</td>
<td>3.361</td>
<td>.7430</td>
</tr>
<tr>
<td>We invest adequately in innovation in order to design and develop products aimed at the worldwide market</td>
<td>3.751</td>
<td>.7579</td>
</tr>
</tbody>
</table>

A majority of respondents highly agrees that their business has adopted use of mobile money and card payments (4.357); their SME identifies competitors and determine the reasons for success of competitors and consider this in strategy formulation (4.339); Building brand presence through social media (3.861); invest adequately in innovation in order to design and develop (3.751); their business has adopted use of private label brands (3.719); and that they conduct market research regularly to find out customer preferences on various products they offer (3.623). A majority of respondents however only agreed moderately that they enter into strategic partnerships with key players in the market with a view to earn competitive advantage and increase market share (3.361); and that their business has expanded to regional markets to counter competitor dominance (3.342).

#### 4.6 Product Differentiation and SME performance

The study further sought to answer the research question, what is the effect of product differentiation strategic management practice on the performance of small enterprises in Kiambu Town? To this end, respondents were asked to indicate the extent to which product differentiation strategic management practice influence the performance of their respective small scale enterprises. Responses were also given on a 5-point Likert scale, where: 1= strongly disagree; 2= disagree; 3= neutral; 4 = agree; 5= strongly agree. Findings are presented in table 4.5.
Table 4.5 Product Differentiation

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product differentiation is a top priority activity at your SME</td>
<td>4.223</td>
<td>.8888</td>
</tr>
<tr>
<td>SME hires the services of a consultant in the process of product differentiation</td>
<td>3.361</td>
<td>.7430</td>
</tr>
<tr>
<td>Your SME has a packaging department to steer improvement of products</td>
<td>3.251</td>
<td>.7579</td>
</tr>
<tr>
<td>Your SME’s product differentiation and choices are in line with market developments and this is improves the SME performance</td>
<td>4.004</td>
<td>.9073</td>
</tr>
<tr>
<td>There are product standards systems in place to ensure success of the SME</td>
<td>3.332</td>
<td>.7786</td>
</tr>
<tr>
<td>Our products are designed and developed in line with current market needs</td>
<td>4.329</td>
<td>.7698</td>
</tr>
<tr>
<td>We trade in products that are of good quality yet affordable to a majority of the locals</td>
<td>4.223</td>
<td>.8923</td>
</tr>
<tr>
<td>We customize our products according to buyers’ specifications and preferences</td>
<td>3.892</td>
<td>.7225</td>
</tr>
</tbody>
</table>

As presented in table 4.5, a majority of respondents highly agrees that their products are designed and developed in line with current market needs (4.329); product differentiation is a top priority activity at your SME (4.223); they trade in products that are of good quality yet affordable to a majority of the locals (4.223); their SME’s product differentiation and choices are in line with market developments and this is improves the SME performance (4.004); and that they customize our products according to buyers’ specifications and preferences (3.892). A majority of respondents however only moderately agreed that they hire the services of a consultant in the process of product differentiation (3.361); there are product standards systems in place to ensure success of the SME (3.332); and that their SME has a packaging department to steer improvement of products (3.251).

4.7 Strategic Innovation Practices and SME performance

The study sought to answer the research question, what is the effect of strategic innovation practices on the performance of small enterprises in Kiambu Town? To this end, respondents were asked to indicate the extent to which they agree with each of the following as practiced in their respective enterprises using the scale: 1= Strongly Disagree; 2= Disagree; 3= Neutral; 4 = Agree; 5= Strongly Agree. Findings are presented in table 4.6.
### Table 4.6 Strategic Innovation Practices

<table>
<thead>
<tr>
<th><strong>Product Innovation</strong></th>
<th><strong>Mean</strong></th>
<th><strong>Std. Dev</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing new products with technical specifications and functionalities totally differing from the current ones</td>
<td>3.754</td>
<td>.7460</td>
</tr>
<tr>
<td>Developing newness for current products leading to improved ease of use for customers and to improved customer satisfaction</td>
<td>3.842</td>
<td>.7602</td>
</tr>
<tr>
<td>Developing new products with components and materials totally differing from the current ones</td>
<td>3.351</td>
<td>.7538</td>
</tr>
<tr>
<td>Decreasing manufacturing cost in components and materials of current products</td>
<td>3.932</td>
<td>.7826</td>
</tr>
<tr>
<td>Increasing manufacturing quality in components and materials of current products</td>
<td>3.916</td>
<td>.8974</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Process Innovation</strong></th>
<th><strong>Mean</strong></th>
<th><strong>Std. Dev</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Determining and eliminating non value adding activities in delivery related processes</td>
<td>3.723</td>
<td>.8888</td>
</tr>
<tr>
<td>Decreasing variable cost and/or increasing delivery speed in delivery related logistics processes</td>
<td>3.961</td>
<td>.7430</td>
</tr>
<tr>
<td>Increasing output quality in manufacturing processes, techniques, machinery and software</td>
<td>4.051</td>
<td>.7579</td>
</tr>
<tr>
<td>Decreasing variable cost components in manufacturing processes, techniques, machinery and software</td>
<td>3.919</td>
<td>.8878</td>
</tr>
<tr>
<td>Determining and eliminating non value adding activities in production processes</td>
<td>3.895</td>
<td>.5824</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Marketing Innovation</strong></th>
<th><strong>Mean</strong></th>
<th><strong>Std. Dev</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewing the product promotion techniques employed for the promotion of the current and/or new products</td>
<td>3.739</td>
<td>.8317</td>
</tr>
<tr>
<td>Renewing the distribution channels without changing the logistics processes related to the delivery of the product</td>
<td>3.793</td>
<td>.6315</td>
</tr>
<tr>
<td>Renewing the product pricing techniques employed for the pricing of the current and/or new products</td>
<td>3.725</td>
<td>.4092</td>
</tr>
<tr>
<td>Renewing the design of the current and/or new products through changes such as in appearance, packaging, shape and volume without changing their basic technical and functional features</td>
<td>3.857</td>
<td>.3718</td>
</tr>
<tr>
<td>Renewing general marketing management activities</td>
<td>3.782</td>
<td>.5924</td>
</tr>
</tbody>
</table>
Results presented in table 4.6 indicate that a majority of respondents indicated high levels of agreement with pertinent statements to the effect of employing various strategic product, process and market innovation practices with a view to enhance the performance of respective small enterprises in the study area. More specifically, with regard to product innovation, a majority of respondents affirmed to decreasing manufacturing cost in components and materials of current products (3.932); increasing manufacturing quality in components and materials of current products (3.916); developing newness for current products leading to improved ease of use for customers and to improved customer satisfaction (3.842); and to developing new products with technical specifications and functionalities totally differing from the current ones (3.754). A majority however only moderately affirmed to developing new products with components and materials totally differing from the current ones (3.351).

With regard to process innovation, a majority of respondents highly affirmed to increasing output quality in manufacturing processes, techniques, machinery and software (4.051); decreasing variable cost and/or increasing delivery speed in delivery related logistics processes (3.961); decreasing variable cost components in manufacturing processes, techniques, machinery and software (3.919); determining and eliminating non value adding activities in production processes (3.895); and to determining and eliminating non value adding activities in delivery related processes (3.723).

With regard to marketing innovation, a majority of respondents highly affirmed to renewing the design of the current and/or new products through changes such as in appearance, packaging, shape and volume without changing their basic technical and functional features (3.857); renewing the distribution channels without changing the logistics processes related to the delivery of the product (3.793); renewing general marketing management activities (3.782); renewing the product promotion techniques employed for the promotion of the current and/or new products (3.739); and to renewing the product pricing techniques employed for the pricing of the current and/or new products (3.725).
4.8 Inferential Statistics

The study performed both Pearson correlation and regression analyses to assess the relationship between the strategic management practices and performance of small scale enterprises in the study area.

4.8.1 Pearson Correlation Analysis

Table 4.7 below presents the Pearson correlations for the relationships between the various strategic management practices and performance of small scale enterprises in the study area.

Table 4.7 Pearson Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Performance</th>
<th>Reaction to competitor actions</th>
<th>Product differentiation</th>
<th>Strategic innovation practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reaction to</td>
<td>.716**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>competitor actions</td>
<td>.004</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product differentiation</td>
<td>.798**</td>
<td>.115</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>.000</td>
<td>.474</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic innovation practices</td>
<td>.736**</td>
<td>.300</td>
<td>.692**</td>
<td>1</td>
</tr>
<tr>
<td>.000</td>
<td>.057</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed)

As presented in table 4.7, positive and strong correlations were established between all the causal and dependent variables. Strongest and positive correlations were obtained between Product differentiation and performance (r = 0.798; p value = .000) followed by Strategic innovation practices and performance (r = 0.736; p value = .004). Reaction to competitor actions also registered a strong and positive correlation (r = 0.716; p value = .000). All the independent variables were found to have a statistically significant association with the dependent variable at both 0.01 and 0.01 levels of confidence.

4.8.2 Regression Analysis

Regression analysis was conducted to establish the degree of influence of the independent and dependent variables. The regression analysis produced the Model Goodness of Fit, Analysis of Variance (ANOVA) and coefficients of determination as presented in table 4.8 below.
Table 4.8 Regression Analysis

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.865a</td>
<td>.748</td>
<td>.720</td>
<td>1.94285</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Reaction to competitor actions, Product differentiation, Strategic innovation practices

ANOVAb

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>402.892</td>
<td>4</td>
<td>100.723</td>
<td>26.684</td>
<td>.000</td>
</tr>
<tr>
<td>1 Residual</td>
<td>135.888</td>
<td>280</td>
<td>3.775</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Total</td>
<td>538.780</td>
<td>284</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Reaction to competitor actions, Product differentiation, Strategic innovation practices
b. Dependent Variable: Performance

Coefficientsa

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td></td>
<td></td>
<td>8.242</td>
<td>4.138</td>
<td></td>
<td>1.992</td>
<td>.006</td>
</tr>
<tr>
<td>Reaction to competitor actions</td>
<td>.336</td>
<td>.112</td>
<td>.353</td>
<td>3.011</td>
<td>.001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product differentiation</td>
<td>2.435</td>
<td>.867</td>
<td>.421</td>
<td>2.809</td>
<td>.003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic innovation practices</td>
<td>1.576</td>
<td>.905</td>
<td>.205</td>
<td>1.742</td>
<td>.041</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

The result showed a coefficient of determination value (R) of .865a which depicts that a strong linear dependence between all the strategic management practice indicators and SME Performance in the study area. With an R-squared of .748, the model shows that reaction to competitor actions, product differentiation and strategic innovation practices collectively explain 74.8% of the variations in SME Performance in the study area while 25.2% is explained by other factors not included in the model.

The P-value of 0.000 implies that SME Performance in the study area has a significant joint relationship with Strategic innovation practices, Reaction to competitor actions and Product differentiation which is significant at 90% confidence level. This implies that the regression model is significant and can thus be used to assess the association between the dependent and independent variables.
The regression coefficients further reveal both positive and significant associations between SME Performance in the study area and all the predictor variables. From the Coefficients table, the established regression equation was thus:

SME Performance = 8.242 + .336 (Reaction to competitor actions) + 2.435 (Product differentiation) + 1.576 (Strategic innovation practices) + 4.138

From the established equation, it can be deduced that keeping all other variables constant, a unit increase in Reaction to competitor actions would to a .336 increase in SME Performance, keeping other variables constant while Product differentiation would to a 2.435 increase in SME Performance, keeping other variables constant. Further, a unit increase in a unit increase in Strategic innovation practices would lead to a 1.576 increase in SME Performance.

4.9 Chapter Summary

The present chapter has analyzed the results and findings as obtained from the field. Findings have been presented in frequencies, percentages, means and standard deviations as well as through inferential statistics. The following chapter presents the summary of key findings, discussion of findings, conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the research findings. The implications from the findings and areas for further research are also presented. The findings from the study are presented in comparison to what other scholars have said as noted under literature review.

5.2 Summary of the Study

The study also sought to answer the research question, what is the importance of reaction to competitor actions as a strategic management practice on performance of small enterprises in Kiambu Town? A majority of respondents highly agrees that their business has adopted use of mobile money and card payments; their SME identifies competitors and determine the reasons for success of competitors and consider this in strategy formulation; building brand presence through social media; invest adequately in innovation in order to design and develop; their business has adopted use of private label brands; and that they conduct market research regularly to find out customer preferences on various products they offer.

The study further sought to answer the research question, what is the effect of product differentiation strategic management practice on the performance of small enterprises in Kiambu Town? A majority of respondents highly agrees that their products are designed and developed in line with current market needs; product differentiation is a top priority activity at your SME; they trade in products that are of good quality yet affordable to a majority of the locals; their SME’s product differentiation and choices are in line with market developments and this is improves the SME performance; and that they customize our products according to buyers’ specifications and preferences.

The study sought to answer the research question, what is the effect of strategic innovation practices as a strategic management practice on the performance of small enterprises operating in Kiambu Town? with regard to product innovation, a majority of respondents affirmed to decreasing manufacturing cost in components and materials of current products; increasing manufacturing quality in components and materials of current products; developing newness for current products leading to improved ease of
use for customers and to improved customer satisfaction; and to developing new products with technical specifications and functionalities totally differing from the current ones.

With regard to process innovation, a majority of respondents highly affirmed to increasing output quality in manufacturing processes, techniques, machinery and software; decreasing variable cost and/or increasing delivery speed in delivery related logistics processes; decreasing variable cost components in manufacturing processes, techniques, machinery and software; determining and eliminating non value adding activities in production processes; and to determining and eliminating non value adding activities in delivery related processes.

With regard to marketing innovation, a majority of respondents highly affirmed to renewing the design of the current and/or new products through changes such as in appearance, packaging, shape and volume without changing their basic technical and functional features; renewing the distribution channels without changing the logistics processes related to the delivery of the product; renewing general marketing management activities; renewing the product promotion techniques employed for the promotion of the current and/or new products; and to renewing the product pricing techniques employed for the pricing of the current and/or new products.

5.3 Discussion of Findings

The study provided two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helped the study to describe the relevant aspects of the phenomenon under study. The mean and standard deviation values were determined. For the inferential analysis, the study used a multivariate regression analysis technique to establish the relationship between the independent and dependent variables.

5.3.1 Reaction to Competitor Actions and SME Performance

The study also sought to answer the research question, what is the importance of reaction to competitor actions as a strategic management practice on performance of small enterprises in Kiambu Town? A majority of respondents highly agrees that their business has adopted use of mobile money and card payments; their SME identifies competitors and determine the reasons for success of competitors and consider this in strategy formulation; Building brand presence through social media; invest adequately in innovation in order to design and develop; their business has adopted use of private label
brands; and that they conduct market research regularly to find out customer preferences on various products they offer.

It can be deduced from the finding that a majority of SMEs reached in the study area have adopted various innovative measures in reaction to competitor actions. With the fast changing technological advancements and the increasingly competitive SME environment, a trend can be noted in SMEs’ reaction to this competition whereby a majority are observed to take up customer experience enhancing innovations including use of mobile money and card payments and building brand presence through social media. Market research is also increasingly taken up by SMEs in the study area with a focus on identifying competitors and determining their reasons for success with a view to shape own strategy formulation; to find out customer preferences on various products they offer as well as use of R&D in the design and development of products.

The finding is in tandem with Ocici (2014) who argued that the first strategy SMEs can use to improve their competitiveness in global markets involves the application and adoption of new technologies that effectively serve to reduce costs. The added that a number of significant new technologies, which include the Internet and the microprocessor, help mitigate economies of scale and the gains traditionally associated with large-scale production. The finding is also supported by Woldie et al. (2008) who observe that new web-based information technologies are enabling SMEs to attain global marketing capabilities at very low costs. SMEs are also using electronic commerce and internet-based access to products like financial and accounting management software systems that enhance organizational and management capabilities, while at the same time reduce the high costs associated with managing SMEs.

The finding is also supported by the National Science Foundation (1999) who shows that total expenditures for industrial R&D by SMEs has increased by almost three times between 1985 and 1995 in the United States, while in the largest firms, the increase has been only about 20%. The National Science Foundation also found an increase in the R&D-sales ratio from 3.4% in 1985 to 3.9% in 1995 for SMEs, whereas the R&D-sales ratios of the largest corporations fell from 3.5% to 3.1%. Accordingly, Li and Atuahene- Gima (2011) maintain that innovation strategies are the response to competitive challenges or future opportunities.
The findings are further consistent with Li and Atuahene-Gima (2011) who intimate that innovation strategies are the response to competitive challenges or future opportunities. Accordingly, Tidd et al. (2011) argue that innovation strategies invariably needs a purpose and, therefore, the introduction and identification of a new consumer need or the development of additional technology within the market place usually initiates the process. This is more commonly identified as the push-pull process. Accordingly, Afuah (2013) provided empirical evidence that R&D not only generates new knowledge, but it also enhances an organization’s ability to assimilate existing knowledge. A related stream of research suggests that an increasing number of firms have begun to develop global products as a response in order to overcome the challenges globalization.

5.3.2 Product Differentiation and SME performance

The finding is of the implication that a majority of SMEs in the study area are realizing that to attain a competitive edge in the dynamic environment characterized by fast paced technological innovations, product differentiation is key. To this end, a majority of SMEs consider product differentiation a top priority. They are increasingly designing and developing their products in line with current market needs as well as trading in products that are of good quality yet affordable to a majority of the target customers. They are also keen to keep their product differentiation and choices in line with market developments as well as to customize their products according to buyers’ specifications and preferences. The foregoing efforts have evidently led to improved performance among a majority of the SMEs.

The finding agrees with Cesnovar (2006) who found that the practice of product differentiation is highly essential because it enhances interest in the products offered by an enterprise. It is massively crucial to underscore the fact that product differentiation has been used successfully by numerous corporate entities including multinational establishments. The finding is also supported b Drew and Smith (2007) who argued that with these differentiation features, firms provide additional values to customers who will reward them with a premium price.

Baum and Oliver (2012) similarly argue that firms that achieve a differentiation strategy often have access to leading scientific research, highly skilled and creative product development team, strong sales team with the ability to successfully
articulate the perceived strengths of the product and corporate reputation for quality and innovation. Barney (2011) adds that with the differentiation strategy, on the other hand, the unique attributes or perceptions of uniqueness and characteristics of a firm’s product other than cost provide value to customers.

The findings are also in consistence with Drew and Smith (2007) who provide that a firm selecting differentiation must therefore aim at achieving cost parity or, at the very least, cost proximity relative to competitors by keeping costs low in areas not related to differentiation and by not spending too much to achieve differentiation. Thus, the cost structure of a firm practicing differentiation cannot be that far above the industry average. This is in agreement with Barney (2011) who offers that in almost all differentiation strategies, attention to product quality and service represent the dominant routes for firms to build competitive advantage.

The findings are also in agreement with Thompson (2010) who highlights that product differentiation focuses on the expectations or needs of different target markets. The expectations of different target markets are associated with high standards of variation. In view of such aspects, it is crucial to zero in on the specific preferences and tastes of each target market. This acts as a helpful platform for efficiency from the perspective of competition. Based on these aspects, it is notable that product differentiation is an essential element within the entire framework of strategic management. Accordingly, Barney and Hesterley (2016) argue that product differentiation is ultimately an expression of the creativity of individuals and groups within the firms. It is limited only by the opportunities that exist, or that can be created, in a particular industry and by the willingness and ability of firms to creatively explore ways to take advantage of those opportunities.

5.3.3 Strategic Innovation Practices and SME performance
The foregoing finding implies that by employing the various strategic innovation practices a majority if SMES in the study area have realized improved performance in their respective lines of business. This can be attributed to the alignment of various business operations with technological advancements; decreasing manufacturing cost and increasing quality in components and materials of current products; increasing output quality in manufacturing processes, techniques, machinery and software; as well as decreasing variable cost and/or increasing delivery speed in delivery related logistics
processes. It is also apparent from the finding that through product, market and process innovation, a majority of SME have made their business lean by among others, eliminating non value adding activities in production processes; determining and eliminating non value adding activities in delivery related processes; renewing the distribution channels without changing the logistics processes related to the delivery of the product; as well as by developing new products with technical specifications and functionalities totally differing from the current ones.

The finding is in agreement with Narver and Slater (2013) who argue that dexterous market champs recognize the particular means whereby various customers buy. They appreciate that a number of their customers will have a fondness for particular types of products as opposed to others who will prefer quite different products. The finding is also in agreement with Hamel and Prahalad (2012) who found that To evaluate alternative approaches vis a vis against the occasions open to a business, companies that are high performing deal with the market side of the business equation. There is a healthy tension between key competences and market opportunities among companies.

The findings are also in tandem with Hauser et al. (2015) who argued that the process of developing and bringing new or substantially better products or services to market has been consistently used in the literature to define product innovation. The findings are also in agreement with Chandy and Tellis (2013) and Hauser et al. (2015) who contend that product innovation has been cited by researchers on multiple occasions as a necessary element for long-term firm survival. The findings further correspond with many authors have discussed this aspect of innovative firms by emphasizing the existence of quality and continuous improvement in processes and production (Damanpour, 2015; Troy, Szymanski, and Varadarajan, 2011). Accordingly, Cumming (2014) argued that process innovation holds business process reengineering and quality function deployment.

Accordingly, Grant (2015) found that among companies, there is a healthy tension between key competences and market opportunities among companies. To evaluate alternative approaches vis a vis against the occasions open to a business, companies that are high performing deal with the market side of the business equation.. This tactic is relatively dissimilar from the approach that evaluates choices from the standpoint of core capabilities or competences. Hamel and Prahalad (2012) consistently argue that concern
for the internal capability strength is too restricting a standpoint when, as is progressively
the case, external competitive considerations are changing fast.

Hurley and Hult (2014) and Hult et al. (2014) model market orientation as an antecedent
of an innovative culture while Menon and Varadarajan (2010) suggest that an innovation
culture encourages information dissemination (one of Kohli and Jaworski’s (2013)
market orientation components), which implies that innovation orientation is an
antecedent of market orientation. Hult et al. (2014) agree that argue “that translating
market intelligence into action is part of a larger planning and decision-making process
that affects even internally oriented changes” and that innovations (i.e., the response)
will follow from the understanding of market intelligence.

5.4 Conclusion

Based on the results presented and discussed, the study concludes that the three strategic
management practices conceptualized in the present study both individually and
collectively have strong and positive effects on SME performance, with product
differentiation exhibiting the highest effect, followed by strategic innovation practices
then reaction to competitor actions as revealed in the regression analysis.

5.4.1 Reaction to Competitor Actions and SME performance

Reaction to competitor actions through innovative means has a strong, positive and
significant effect on SME performance in the study area. To this end, a majority are
observed to take up customer experience enhancing innovations including use of mobile
money and card payments and building brand presence through social media. Innovation
particularly through market research is adopted by a majority of SMEs aimed at to
finding out customer preferences on various products they offer as well as use of R&D in
the design and development of products as well as in identifying competitors and
determining their reasons for success with a view to shape own strategy formulation;

5.4.2 Product Differentiation and SME performance

Product differentiation has a strong, positive and significant effect on SME performance
in the study area. To this end, a majority of SMEs are also keen to keep their product
differentiation and choices in line with market developments as well as to customize their
products according to buyers’ specifications and preferences. A majority of the SMEs are also increasingly designing and developing their products in line with current market needs as well as trading in products that are of good quality yet affordable to a majority of the target customers.

5.4.3 Strategic Innovation Practices and SME performance

Strategic innovation practices has a strong, positive and significant effect on SME performance in the study area. Through strategic innovation practices, SMEs are in a position to align the various business operations with technological advancements. This is particularly achieved by decreasing manufacturing cost and increasing quality in components and materials of current products; increasing output quality in manufacturing processes, techniques, machinery and software; as well as decreasing variable cost and/or increasing delivery speed in delivery related logistics processes. It is also evident that through product, market and process innovation, a majority of SME have made their business lean by among others, eliminating non value adding activities in production processes; determining and eliminating non value adding activities in delivery related processes; as well as by renewing the distribution channels without changing the logistics processes related to the delivery of the product.

5.4 Recommendations

5.4.1 Recommendations to Practice

The study established that external factors such as reaction to competitors actions as a strategic practice contributed to improved SME performance. It is therefore recommended that appropriate external environment analysis is conducted and continuous review on the environment is conducted. Also strategic planners, strategic situation, strategic analysis and choice are put in place to accomplish the mission and objectives of the SMEs in the light of growth and profitability. The management also needs to have a positive rethink towards the use of strategic management and have the right resources as the success of a business or strategy depends primarily on the value judgment, energy and skill of its top managers and the strategic implementation within the context and parameter of the uncertainty and ambiguity of the environment subjected to volatility.
The study further established that product differentiation and strategic innovation practices also significantly improve SME performance. Therefore strategic training is recommended to top management and all employees in the SMEs in order to enhance their performance. Also it recommended that top management should undertake a comprehensive study and adoption of strategic management in all and every aspect and areas of its concern so as to synergies, restructure, re-engineer and reposition its products and operations and thus enhancing competitiveness and performance.

5.4.2 Recommendations to Policy

From the foregoing findings, the following recommendations can be drawn. To further enhance SME performance in the study area, business development services are needed to transform those with potential into dynamic growth oriented enterprises. Hence, enterprise development policies should encourage the progressive expansion of enterprises, and support services for entrepreneurship development should be enhanced. Regular evaluations of support institutions should be carried out to ensure their continued relevance and the effectiveness of their programmes.

Marketing should be given due importance in the provision of support services. In the area of SME finance, there is a need to develop measures for encouraging financial institutions to service the SME sector. Such measures should be complemented by strengthened business development training and services, including marketing and access to technology. One way in which to upgrade technology and spread its use by enterprises is to establish technology development and dissemination centers, technology parks, and research and development institutions. External assistance could be more effective if business organizations were to become involved in the delivery of services rather than NGOs, which lack expertise in business promotion.

5.5 Suggestions for Future Studies

The present study has established how strategic management practices relate to performance of small scale enterprises with reference to Kiambu Town. The study was however limited in its scope and therefore findings may not be generalized to all SMEs across the country. It is hereby suggested that future studies be replicated in other counties with a view to determine and establish any patterns or contextual differences among counties.
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APPENDICES

Appendix I: Letter of Introduction

April, 2017
Dear respondent,
I am a student at United States International University Africa (USIU-Africa) pursuing a Masters of Business Administration program. In partial fulfillment of my course work, I would like to conduct a research project to assess INFLUENCE OF STRATEGIC MANAGEMENT PRACTICES ON PERFORMANCE OF SMALL SCALE ENTERPRISES.
Kindly therefore, complete the attached questionnaire with as accurate information as possible. This research will be used entirely for academic purposes while observing utmost confidentiality.
Your assistance is highly appreciated. Thank you in advance.

Yours faithfully,

IRENE WANJOHI
Appendix II: Questionnaire

Kindly respond to the following questions by ticking on the appropriate box (✓) or filling the answers in the blank spaces

SECTION 1: DEMOGRAPHIC INFORMATION

You are requested to fill out your personal information in the spaces below. Please tick only one response.

1. Gender Male: [ ] Female: [ ]

2. Age? 18-25 years [ ] 26-35 years [ ] 36-45 years [ ] 46-55 years [ ] Above 55 years [ ]

3. Highest Level of education Certificate/Diploma [ ] Degree [ ] Postgraduate [ ]

4. Number of years worked in this company?
   - Less than 5 years [ ]
   - Between 5 and 10 years [ ]
   - Between 11 and 15 years [ ]
   - Between 16 and 20 years [ ]
   - 21 years and above [ ]

5. What area of business do you specialize in?
   - Automobile Spare Parts [ ]
   - Manufacturing [ ]
   - Salon and/or Cosmetics [ ]
   - Freight Forwarders [ ]
   - Mobile Phones and accessories [ ]
   - Other (specify) ……………………………
   - Electronics [ ]
   - Foodstuff [ ]
   - Textile & Garments [ ]
   - Transport & Aviation [ ]
   - Salon and/or Cosmetics [ ]
   - Cyber / Computer accessories [ ]

6. How many employees does your business have? …………………………………………………
   - Less than 5 [ ]
   - 5-10 [ ]
   - 11-15 [ ]
   - 16-20 [ ]
   - Over 20 [ ]

7. How old is the company?
   - Less than 5 years [ ]
   - 5-10 years [ ]
   - 11-15 years [ ]
   - 16-20 years [ ]
   - Over 20 years [ ]

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8. Do you practice/do formal strategic plans?
   Yes [ ] No [ ]

If yes, what was your last plan?............................................................................................

SECTION II: STRATEGIC MANAGEMENT PRACTICES

PART A: Reaction to Competitor Actions

7. Indicate the extent to which the following actions have influenced the performance of your business. Place a check mark in the appropriate box using the scale: 1= strongly disagree; 2= disagree; 3= neutral; 4 = agree; 5= strongly agree

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<th>Statement</th>
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<tbody>
<tr>
<td>My business has adopted use of mobile money and card payments</td>
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<td>My business has expanded to regional markets to counter competitor dominance</td>
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<td>My business has adopted use of private label brands</td>
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<td>Building brand presence through social media</td>
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<tr>
<td>My SME identifies competitors and determine the reasons for success of competitors and consider this in strategy formulation</td>
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<td>We conduct market research regularly to find out customer preferences on various products we offer</td>
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<td>We enter into strategic partnerships with key players in the market with a view to earn competitive advantage and increase market share</td>
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<td>We invest adequately in innovation in order to design and develop products aimed at the worldwide market</td>
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How do you rate the extent to which reaction to competitor actions practices have worked to improve the performance of your SME? Please indicate by ticking

a. Very great extent ( )
b. Great extent ( )
c. Moderate extent ( )
d. Little extent ( )
e. Not at all ( )
PART B: Product Differentiation

6. Please rate how strongly you agree or disagree with each of the following statements on aspects to product differentiation at your organization (SMEs) using the scale: Strongly disagree (1); Disagree (2); Neutral (3); Agree (4); Strongly agree (5)

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<tr>
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<tr>
<td>Product differentiation is a top priority activity at your SME</td>
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<td>SME hires the services of a consultant in the process of product differentiation</td>
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<td>Your SME has a packaging department and a committee that steer improvement of products</td>
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<td>Your SME’s product differentiation and choices are in line with market developments and this is improves the SME performance</td>
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<td>There are product standards systems in place to ensure success of the SME</td>
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<td>Our products are designed and developed in line with current market needs</td>
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<td>We trade in products that are of good quality yet affordable to a majority of the locals</td>
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<td>We customize our products according to buyers’ specifications and preferences</td>
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PART C: Strategic Innovation Practices

The following set of questions is pertinent to the innovation strategies adopted by SMEs in Kiambu County. Kindly indicate the extent to which you agree with each of the following as practiced in your organization using the scale: 1= Strongly Disagree; 2= Disagree; 3= Neutral; 4 = Agree; 5= Strongly Agree:

<table>
<thead>
<tr>
<th>Product Innovation</th>
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<th>2</th>
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<tr>
<td>Developing new products with technical specifications and functionalities totally differing from the current ones</td>
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<td>Developing newness for current products leading to improved ease of use for customers and to improved customer satisfaction</td>
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<td>Developing new products with components and materials totally differing from the current ones</td>
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<td>Decreasing manufacturing cost in components and materials of current products</td>
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<td>Increasing manufacturing quality in components and materials of current products</td>
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<td><strong>Process Innovation</strong></td>
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<tr>
<td>Determining and eliminating non value adding activities in delivery related processes</td>
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<td>Decreasing variable cost and/or increasing delivery speed in delivery related logistics processes</td>
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<td>Increasing output quality in manufacturing processes, techniques, machinery and software</td>
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<tr>
<td>Decreasing variable cost components in manufacturing processes, techniques, machinery and software</td>
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<tr>
<td>Determining and eliminating non value adding activities in production processes</td>
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<th><strong>Marketing Innovation</strong></th>
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<tr>
<td>Renewing the product promotion techniques employed for the promotion of the current and/or new products</td>
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<td>Renewing the distribution channels without changing the logistics processes related to the delivery of the product</td>
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<td>Renewing the product pricing techniques employed for the pricing of the current and/or new products</td>
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<td>Renewing the design of the current and/or new products through changes such as in appearance, packaging, shape and volume without changing their basic technical and functional features</td>
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<td>Renewing general marketing management activities</td>
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PART D: PERFORMANCE OF SMEs IN KIAMBU COUNTRY

8. What has been the trend of the following in your organization over the course of operation? Greatly decreased (1); Decreasing (2); Constant (3); Improved (4); Greatly Improved (5)

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<td>Profitability</td>
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<td>Number of customers</td>
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<td>Number of employees</td>
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<td>Number of branches</td>
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<td>Stock</td>
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<td>Capital</td>
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THANK YOU