

Journal of
**Business and Strategic
Management**
(JBSM)

**AN ANALYSIS OF COMPETITIVE STRATEGIES AND
PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN
KENYA: A CASE OF NAIROBI CENTRAL BUSINESS DISTRICT**

Omar B. Buul and Dr. Robert Omundi



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AN ANALYSIS OF COMPETITIVE STRATEGIES AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE OF NAIROBI CENTRAL BUSINESS DISTRICT

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Abstract

Purpose: The purpose of this study was to determine the influence of competitive strategies on the performance of small and medium enterprises in Kenya.

Methodology: The study employed a descriptive correlation design using primary data collected using questionnaires. The study targeted 4,560 SMEs in Nairobi CBD. The collected data was coded and entered into SPSS (V.20) to create a data sheet that was used for analysis. Data was analyzed using quantitative techniques. Descriptive statistics were used to describe the characteristics of collected data. Pearson's Correlation, Analysis of variance (ANOVA) and Multiple Regression Analysis were used to establish the relationships among the study variables.

Findings: Cost leadership, differentiation, market focus and strategic alliance were all found to have a positive and significant influence on SME performance.

Unique contribution to theory, practice and policy: The study recommended that: SMEs should embrace and invest in cost leadership strategies most especially forming linkages with service providers, suppliers and other supplementary institutions since it will enable them achieve competitive advantage; SMEs ought to focus and invest more on differentiation as it could be used as a major competitive advantage tool against competitors; SMEs should know on what basis to segment their products, services and operations; and that SMEs should embrace strategic alliances to increase their market share.

Key words: *competitive strategies, performance, cost leadership, differentiation, market focus, strategic alliance, small and medium enterprises*

1.0 INTRODUCTION

Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs (Porter, 1985). Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition. This involves identifying sources of competition in the ever changing environment then developing strategies that match organizational capabilities to the changes in the environment (Arasa & Githinji, 2014). Competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and

improve its market position (Thompson & Strickland, 2010). Porter (2012) outlined the three approaches to competitive strategy. These are; striving to be the overall low cost producer, that is, low cost leadership strategy, seeking to differentiate one's product offering from that of its rivals, that is, differentiation strategy and focus on a narrow portion of the market, that is, focus or niche strategy (Arasa & Githinji, 2014).

In today's rapidly changing economic and business environments organizations compete for customers, revenue, market share with products and services that meet customer's needs. Global competition has brought about technological changes whereby customers are demanding for superior quality products/services with lower prices (Dirisu et al., 2013). More so, this increased rate of global competition has brought about reduction in product life cycle. This has led to much emphasis being placed on organizational competencies and creation of competitive advantage which is believed would give them an edge over other competitors. Though there are many objectives an organization would want to achieve these days, the two major ones are to achieve a competitive advantage position and enhance their organization's performance in relation to that of their competitors (Raduan et al., 2014).

The concept of SMEs varies from one country to another depending on the indicators used (Visser, 2013). The first criteria, based on the number of employees, defines SMEs as those enterprises below a certain number of workers (can range from less than 10 to less than 50 employees). The second criterion defines the SMEs as the degree of legal formality, and has been used to distinguish between the formal and informal sectors. Here, Micro, small and medium enterprises (MSMEs) are considered as enterprises which are not registered and do not comply with the legal obligations concerning safety, taxes and labour laws. The third criterion defines SMEs as based on the limited amounts of capital and skills per worker (Ongolo & Awino, 2013).

The French business economy includes a significant number of SMEs, which together account for 59% of value and 63% of employment. Microenterprises are comparatively more prevalent, making up 94% of all businesses (EU, 2015). Most French SMEs are active in services (45%), the wholesale and retail trade (26%) and construction (19%). The SME sector in France was hit hard by the global recession in 2008-09 but experienced a quick recovery in 2010-11, followed by some ups and downs since then (EU, 2015). Nevertheless, in 2013 the French economy seemed to have recovered to its pre-crisis level. SMEs in real estate, accommodation and food services performed particularly well, while those in the construction sector are trailing significantly behind. Since 2010, the UK's SMEs have added some 700 000 new jobs, bringing total employment in the sector to almost 10 million in 2013, a 7% increase (EU, 2015). The number of SMEs rose in the same period by some 130 000 to approximately 1.8 million. This rebound was helped by a business environment which is among the most conducive for SMEs in the entire EU (EU, 2015).

In developing countries the full potential of the SME sector has yet to be tapped due to the existence of a number of constraints hampering the development of the sector. SMEs in developing countries primarily face issues relating to business regulations and restrictions, finance, human resource capabilities and technological capabilities (Mwangi et al., 2013). Developing SMEs in developing countries is an important challenge. The main underlying constraints to their growth are lack of finance, lack of human resource capabilities and lack of technological capabilities (Visser, 2013).

SMEs face various challenges in their business operating environment (both internal and external). Their success, pegged on beating stiff competition from larger-sized firms among other challenges, is a consequence of embracing a mix of strategies, appropriate strategic leadership, and appropriate utilization of available resources to achieve competitive advantage (Mutisya, 2013). Despite increased competition in the business industry in Kenya, small and medium sized firms are increasing their operations to other regions in order to increase their market share (Bowen et al., 2009). There are increasing numbers of businesses registering to operate there each year. Some of the small and medium sized firms have continued to maintain competitive advantage, achieving growth and profitability in this market, but others fail to survive in the highly competitive business environment (Mwangi et al., 2013; KNBS, 2012).

Farid et al. (2013) asserts that Porter's generic strategies have been one of the most studied areas in the field of strategic management. Yet the empirical findings are inconsistent as to their performance implications. Some studies support Porter's assertion that the performance of firms pursuing low-cost and differentiation strategies is superior to that of firms that are stuck in the middle (Kim & Lim, 2012; O'Farrell et al., 2013; Powers & Hahn, 2014). Other studies reported better performance of "hybrids," firms that combine both low-cost and differentiation strategies (Campbell-Hunt, 2010; Chan & Wong, 2010; Kim et al., 2014)

A number of studies have been done on competitive strategies but under different contexts for example, Akingbade (2015) explored the influence of competitive strategies embarked upon by selected telecommunication companies in Nigeria on their performance, Luliya et al. (2013) examined the mediating role performance measurement plays in the relationship between competitive strategies and firm performance while Ortega et al., (2011) examined the viability of hybrid competitive strategies, which combine differentiation and cost elements, and their impact on organizational performance in comparison to pure strategies and 'stuck-in-the-middle' combinations. These studies reveal that firms in different industries adopt different competitive strategies which are unique in each context. Despite this background, limited studies have been done to determine the influence of competitive strategies on SMEs in Kenya as they operate within such an environment. This study therefore has been motivated by the need to fill this gap in knowledge. The study therefore sought to establish the influence of competitive strategies on performance of SMEs in Nairobi, Kenya.

1.1 Statement of the Problem

SMEs often do not have the means to ensure continuous successful implementation of strategic planning as they maintain lower levels of resources, have limited access to human, financial and customer base and less-developed management capacity and administrative systems (Gerber, 2011). According to Onugu (2015), unlike large enterprises, SMEs are characterized by their flexibility, responsiveness, pursuit of opportunities, risk-taking, innovation, unconventional thinking and creativity. Small and medium enterprise firms are increasingly facing numerous challenges in their quest to maintain their market share in this global business environment. Small and Medium Enterprises are exposed to extreme competition from the mega organizations that have massive resources. These large companies sometimes venture into those businesses that were usually the preserve of small businesses; if this trend continues then small and medium enterprises must employ competitive strategies to survive the onslaught. There is therefore a need to continuously find out what successful SMEs (those that have continued to achieve sustainable competitive advantage over the long-term) focus on to remain ahead of the pack by

countering these competitive forces as well as environmental challenges. This is the policy gap that necessitates this study.

A number of studies have been done on competitive strategies but under different contexts in Kenya. Gathoga (2011) focused on competitive strategies by commercial banks in Kenya. Karanja (2012) did a survey of competitive strategies of real estate firms in the perspective of Porters generic model. Despite this background, limited studies have been done to determine the influence of competitive strategies on performance of SMEs in Nairobi and therefore findings from studies from other industries cannot be generalized to the SME sector since each sector has unique competitive strategies. Hence, there exists a research gap in the SME sector. This study was motivated by the need to fill this gap in knowledge. In so doing the study sought to address the following question: What is the influence of competitive strategies on the performance of small and medium enterprises in Kenya?

1.2 Research Objectives

- i. To analyze the relationship between cost leadership and performance of small and medium enterprises in Kenya
- ii. To assess the extent to which differentiation strategy affect performance of small and medium enterprises in Kenya
- iii. To examine the relationship between market focus and performance of small and medium enterprises in Kenya
- iv. To determine the extent to which strategic alliances affect performance of small and medium enterprises in Kenya

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Porter's Generic Competitive Strategy Theory

Competition in an industry is influenced by various forces in the business operating environment. Porter attempted to summarize these forces as the rivalry among existing firms, threat of new entrants, substitute products or services, increased bargaining power of suppliers and bargaining power of buyers. A firm's products/services are affected by its suppliers, substitutes, buyers, potential entrants and industry competitors. For suppliers and buyers, these have a bargaining power on a firm's products/services whereas the potential entrants and substitutes pose a threat to the firm's products and services. He further came up generic competitive strategies to counter these competitive forces (Barney, 2007; Porter, 1998).

Porter's generic strategies are useful in determining strategic positions at the simple and broad level of organization scope. The basis for Porter's model was the industry structure and positioning within the industry. These strategies were cost leadership and differentiation, while the third strategy, focus was based on these two strategies. Focus is the firm's choice of competitive scope. This scope distinguishes between firms targeting broad industry segments and firms focusing on narrow segments. Cost leadership as a strategy allows the firm to be a low-cost producer and thus making more profits than rivals due to low costs of production and economies of scale. This becomes an advantage for the firm, especially those that are first-movers or those that have ease of access to raw materials or factors of production. Differentiation as the second

generic strategy allows a firm to offer unique products or services at a premium price pegged on the value added. The value added is usually a perception of the products by the buyers. The added value and utility of that product as perceived by that buyer enables the product to be differentiated at a cost that covers the extra value or features in it. The third generic strategy is focus which combines the above two generic strategies. This strategy is based on serving a certain clientele to the exclusion of others in the market. These are basically buyers with unusual needs as the target market and thus the firm offers to dedicate its services or products to serve them. Application of these strategies varies in firms and it is greatly affected by the industry characteristics (Porter, 1998). This strategy enables firms to concentrate on a narrow market segment to either achieve the above two strategies of cost leadership and differentiation. It is based on the assumption that the particular needs of the narrow group of customers can be better met by focusing entirely on this group (Barney, 2007; Porter, 1998). Firms that adopt this strategy gain a high degree of customer loyalty, which in turn discourages competing firms from attempting to compete directly with them.

In summary, Porter argues that firms are able to succeed in adopting multiple strategies by creating separate business units for each of the above strategies since customers often seek multi-dimensional attributes of a product to derive maximum utility. These can be a mix of quality, convenience, price and style, among other features of a product or service (Barney, 2007; David et al., 2001). This theory informs forms the basis of this study by informing on the independent variables.

2.1.2 Resource-Based View Theory

The idea of the resource-based view is credited to Penrose (1959) from her description of the importance of firms' use of their resources to gain competitive advantage. This is an approach for analyzing competitive advantage in firms. It combines the internal or the core competencies in the internal perspectives of strategy.

The major assumptions of the resource-based view are resource heterogeneity, which assumes that firms are bundles of products and services with firms possessing different bundles of these resources, and resource immobility, which assumes that some of these resources are either very costly to copy or imitate or either inelastic in supply (Barney, 2013). These resources can either be tangible or intangible and they include all assets, capabilities, competencies, organization processes, firm attributes, information, knowledge that are controlled by a firm and that enable it to conceive of and implement strategies designed to improve its efficiency and influenceiveness (Pearce & Robinson, 2011; Barney, 2013). A firm's resource is categorized into either financial, physical, human or organization capital. These resources or internal attributes of firms have been referred to as the core competencies or core capabilities of firms that give them a competitive advantage. To achieve this, the resources must be valuable, rare, costly-to-implement (imitability) and applied by organized systems of a firm to realize their full potential. The resource-based view can be applied to individual firms to understand whether these firms will gain competitive advantage and how sustainable this competitive advantage can likely be. Peteraf (2013) outlined four resources characteristics that can lead to sustainable competitive advantage namely, the heterogeneity, ex post limits to competition, ex-ante limits to competition and imperfect mobility which have implications on the inelastic supply of such resources (Barney, 2012; Teece, 2010). The resource based view is useful in informing about risks as well as benefits of diversification strategies. This theory has several limitations namely, unforeseen

environmental upheavals or drastic turbulence, managerial influence that is limited, and data challenges based on intra-organization resources. However, it complements other analyses such as Porter's five-force model, the generic strategies and opportunity analysis (Barney, 2007; Peteraf, 2013; Porter, 1998).

2.2 Empirical Literature

Prajogo (2012) examined the underlying strategic intent of quality performance. Specifically, the study aimed to examine the individual impact of differentiation and cost leadership as well as their interaction influence on quality performance. This study employed a data set drawn from 102 managers of Australian manufacturing firms. The findings indicated that product quality was predicted by differentiation strategy, but not cost leadership strategy. However, the influence of differentiation on quality was moderated by cost leadership whereby the higher the cost leadership, the stronger the influence.

Hilman (2013) adds the body of knowledge that relates Porter's cost leadership strategy and competitor orientation to organizational performance in context of hotel industry in Malaysia. The existing literatures show that there were limited empirical studies, which considers the alignment between cost leadership and competitor orientation and its impact on organizational performance. A total 475 sets of questionnaires distributed to three to five star rating hotel's managers in Malaysia and only 24% of it, which is 114 returned. Of these 114 respondents, only 54 hotels implementing cost leadership and the rest follows differentiation strategy. For this paper, the researcher focused on those 54 hotels which implementing cost leadership strategy. The finding showed that cost leadership strategy has significant influence on organizational performance and competitor orientation.

Yanney (2014) investigated the impact of leadership styles and business strategy on the organizational performance of small medium scale enterprises (SMEs) in the manufacturing sector of Ghana. The study revealed that leadership and business strategy statistically and significantly impacted on organizational performance but strategy had greater influence. Again, transformational leadership style and cost leadership significantly influenced organizational behaviour ($p = 0.000 < 0.01$) but transactional leadership style, differentiation and focus strategies did not. The study recommended that SMEs should take advantage of transformational leadership style and cost leadership to enhance growth and induce greater organizational performance.

Muthoka and Oduor (2014) examined the influence of strategic alliances on performances. The objectives of the study were: to establish the influences of technological, production and marketing strategic alliances on the performance of supermarkets and their alliances in Kenya. The study employed a correlational research design. The sample of the study entailed a study of all the five big supermarkets (Nakumatt, Ukwala, Naivas, Tuskys and Uchumi) and 95 of their strategic alliances. The empirical results of the study indicated that there was a strong, negative correlation between technological strategic alliances and performance. However, there was no statistical significant relationship between technological strategic alliances and performances among supermarkets and their alliances in Nairobi CBD. Correlation results indicated that there was a weak, negative influence between production strategic alliances and performance, for the supermarkets while for supermarket alliances there was a large, positive influence between the two variables.

Muthoka and Oduor (2014) also found out that there was a strong, positive influence between marketing strategic alliances and performance for the supermarkets while for supermarket alliances there was a medium, positive correlation between marketing strategic alliances and performance. However, 2 tailed tests indicated that there was a statistically insignificant relationship between the variables. The results from the multiple regression analysis indicated that strategic alliances had a strong relationship with supermarket performance which suggests that strategic alliance contributes positively towards supermarkets performance. On the other hand supermarket alliances regression analysis showed a weak relationship between strategic alliances and performance suggesting that other factors account for the performance in these alliances. The ANOVA test indicated that the relationship between strategic alliances and performance was not statistically significant for the supermarket alliances but significant for the supermarkets. The t- test analysis indicated that the relationship between strategic alliances and performance was statistically significant among the supermarkets and their alliances suggesting that strategic alliances positively increase performance.

Camison et al. (2014) provided an empirical evidence of the relationship that exists between participation on in technological strategic alliances and business performance by considering the knowledge-based distinctive competencies that the alliance is capable of generating as a mediating variable. The generation of knowledge in technological strategic alliances explained the contradictory results that emerge from the direct influence of strategic alliances on economic performance. The study used a sample of Spanish industrial firms. The results findings proved that the relationship between R&D and innovation strategic alliances and performance is mediated by the generation of knowledge-based distinctive competencies and that the contribution of the participation in alliances to the growth of the firm's knowledge stock depends on its creation of innovation competencies. The study recommended that R&D managers should enhance the development of this kind of competencies in order to achieve superior performance.

Lee (2012) examined whether the new ventures success of small and medium enterprises (SMEs) in the biotech industry relates with the characteristics of strategic alliances. The study advanced a research conceptual framework. Using sampling data gathered from 189 Taiwan biotech firms through a benchmarking questionnaire, the study tests six hypotheses employing structural equations. The findings were generally consistent with the literature. The study supported all hypotheses. Consequently, the results showed that strategic alliances improve SMEs' new venture success.

Asikhia (2010) studied market-focused strategic flexibility as one survival strategy needed. In order to investigate these issues, the research instrument, a questionnaire, was distributed to the chief executive officers and marketing managers of five hundred firms in Nigeria. A 58.4% response rate was achieved. The psychometric properties of the instrument showed it to exhibit a good fit with the model. The data was then analyzed and tested using factor analysis, correlational and regression analysis. The overall results suggested that market-focused strategic flexibility is a driver of organizational positioning in a dynamic environment, and it is also found to moderate the market orientation sales growth relationship studied and environmental variables influence its relationship with sales growth in most firms. The results also established that while firms operating in a dynamic environment may gain advantage by adopting market-focused strategic flexibility, firms operating in a relatively stable environment may not achieve particularly good results if they do so. If most firms in a particular industry operating in a

dynamic environment adopt market-focused strategic flexibility, they are not likely to achieve competitive advantage.

Kamalesh et al. (2012) used data from a survey of 159 hospitals to test the relationship between market orientation and firm performance for low cost and differentiation strategies. Hospitals pursuing a differentiation strategy had stronger market orientation than those pursuing a cost leadership strategy. Market orientation had a more positive impact on the performance of organizations pursuing a differentiation strategy than on those pursuing a cost leadership strategy. In the cost leader group, the inter-functional coordination component of market orientation significantly affected firm performance, while in the differentiator group the customer orientation and competitor orientation components of market orientation had significant impact on performance.

Egeren and O'Connor (2012) used questionnaire survey of 289 top management team members from 67 organizations. Results indicated that a significant positive relationship exists between market orientation and performance in service businesses. Pelham (2013) used questionnaire surveys of presidents and sales managers of 160 firms. Results indicated that the market orientation-performance relationship is strongest in differentiated markets. Atuahene (2013) also used questionnaire survey of CEOs from 158 manufacturing and 117 service firms in Australia. Results indicated that market orientation has significant relationships with certain (but not all) aspects of innovation.

Spencer et al. (2010) examined the mediating role of both non-financial and financial performance measures in the relationship between a differentiation strategic orientation and organizational performance. A path-analytical model is adopted using questionnaire data from Australian manufacturing firms. The results indicated that, firstly, firms pursuing a differentiation strategy (product flexibility or customer service focus) utilize non-financial as well as financial performance measures; secondly, these performance measures were associated with higher organizational performance; and thirdly, there is a positive association between a firm's strategic emphasis on differentiation and organization performance through the mediating role of non-financial and financial performance measures.

Khaled (2012) investigated the relationship between differentiation strategy and organizational performance. To investigate this relationship, 33 industrial companies listed at Amman Stock Exchange by the beginning of 2010 were surveyed. Industrial companies listed at Amman Stock Exchange were surveyed. The result of multiple regression analysis indicated that the differentiation strategy had no significant influence on organizational performance of such companies. One important practical implication of this result was that the Jordanian companies should incorporate the different dimensions of product differentiation strategy correctly to improve their performance.

Luliya et al. (2013) examined the mediating role performance measurement plays in the relationship between competitive strategies and firm performance. This study conducted a mail-survey of Thai listed companies in 2009. A total of 101 Thai listed companies' executives, each representing their company, participated in this study. The study found that generally, all competitive strategies positively and significantly enhance firm performance through performance measurement. Specifically, firms' differentiation strategy not only had a direct and significant impact on firm performance but it also had indirect and significant impact on firm

performance through financial measures. Cost leadership strategy that firms pursued did not directly affect firm performance. However, it did so indirectly and significantly through financial performance measures. Future research could consider the use of longitudinal data to ascertain more clearly these causal relationships.

3.0 RESEARCH METHODOLOGY

A descriptive correlation design was employed. The study targeted 4,560 SMEs in Nairobi CBD. The choice of the CBD was justified on the basis that Nairobi County contributes about 60% of the total GDP OF Kenya and therefore SMEs in the CBD contribute a significant portion of the Kenyan GDP. Stratified random sampling was used to select the SMEs for the study. The strata were the sectors SMEs operating in (trading, manufacturing and service). Primary data collected using questionnaires was utilized in this study to enhance originality of the study. The collected data was coded and entered into SPSS (V.20) to create a data sheet that was used for analysis. Data was analyzed using quantitative techniques. Descriptive statistics was used to describe the characteristics of collected data. Pearson's correlation, analysis of variance (ANOVA) and multiple regression analysis were used to establish the relationships among the study variables. The entire hypothesis was tested at 95% confidence level.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

A total of 96 questionnaires were printed and distributed to the identified respondents. Out of the total number of questionnaires distributed 78 were properly filled and returned. This represented a response rate of 81.2%.

4.2 Demographic characteristics

4.2.1 Age of Respondents

Respondents were asked to indicate their age. Thirty percent (30%) of the respondents were between the ages of 41-50 years, twenty seven percent (27%) aged between 31-40 years, 24% were between the ages 18-30 years while 19% of the respondent indicated they were over 50years.

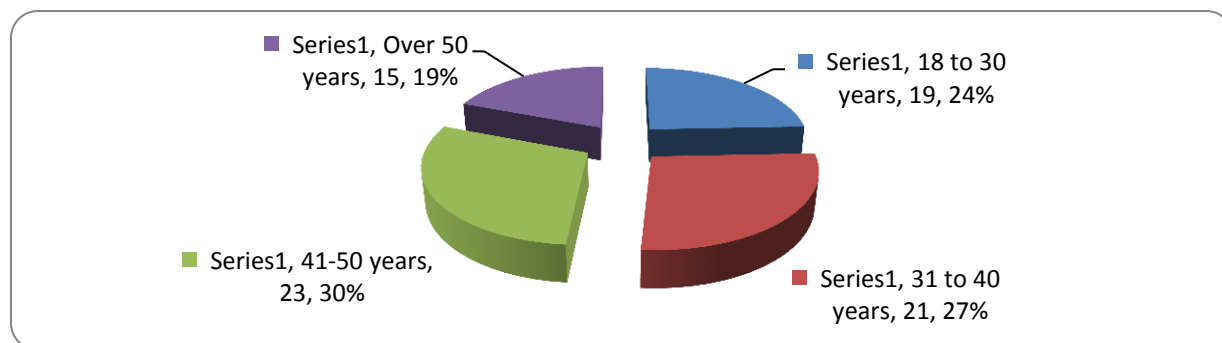


Figure 1: Respondents Age

The findings imply that the respondents are mature enough to fill in the questionnaires. Age might have an impact on SME performance as older SME owners might have stronger and wider social capital compared to younger SME owners and this impacts on SME performance.

4.2.2 Gender

The respondents were asked to indicate their gender. Majority (59%) of the respondents were male while forty one percent (41%) of the respondents were females. The findings imply that most of the SME managers are males and gender might have an impact on SME performance. The results are concurrent with those of Watson (2011) who noted that the social structure and domestic duties of women might result in female entrepreneurs having and using fewer networks than male entrepreneurs and this may have an impact on SME performance.

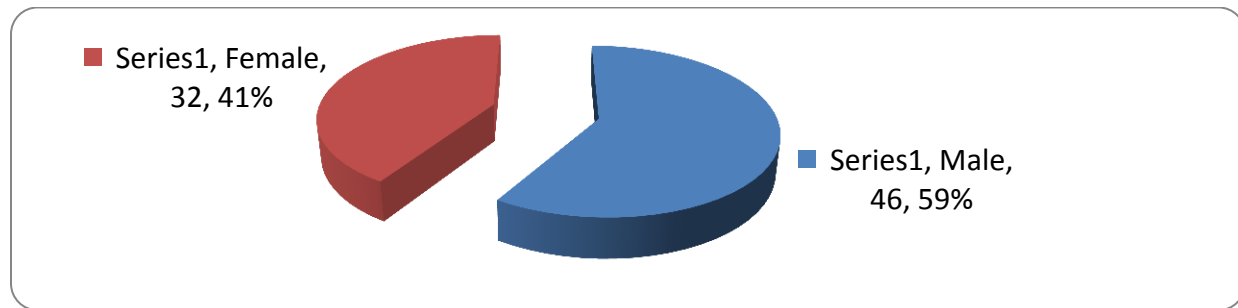


Figure 2: Gender

4.2.3 Level of Education

Respondents were asked to indicate their level of education. Seventeen percent (17%) had Bachelor's Degree, 13% of the respondents had Master's Degree, 14% had secondary level of education, 13% had certificate, 12% had PhD, 11% had Diploma, and 9% had primary level of education with the remaining 11% did not have any form of formal education. Level of education may impact on SME performance as owners with a better education may have better knowledge management on competitive strategies than those managers with no education background.

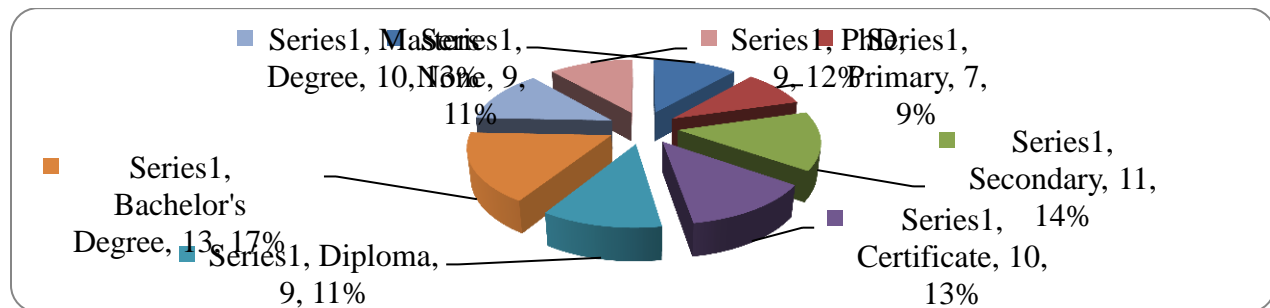


Figure 3: Level of Education

4.2.4 Other Form of Employment

Respondents were asked to indicate their other forms of employment. Majority (55%) agreed that they had other types of employment. Forty five percent (45%) did not have other forms. The findings imply that majority of the SME managers had other form employments apart from the SMES. Employment status may have an impact on SME performance as those with other forms of employment might have the relevant training, education and experiences to cope with work and environment changes including those of competitors.

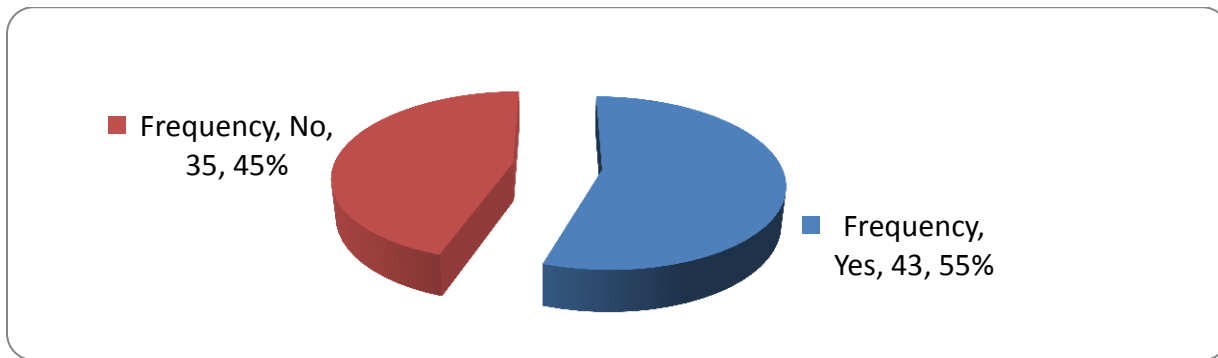


Figure 4: Other Forms of Employment

4.2.5 Years of SME operation

Further respondents were asked to indicate the number of years their SMEs had been in operation. Forty percent (40%) of the SMEs had been in operation for a period of less than 2years, 33% of the SMEs had been in operation for a period of 3-5years while only twenty seven percent (27%) had operated for over 5years.

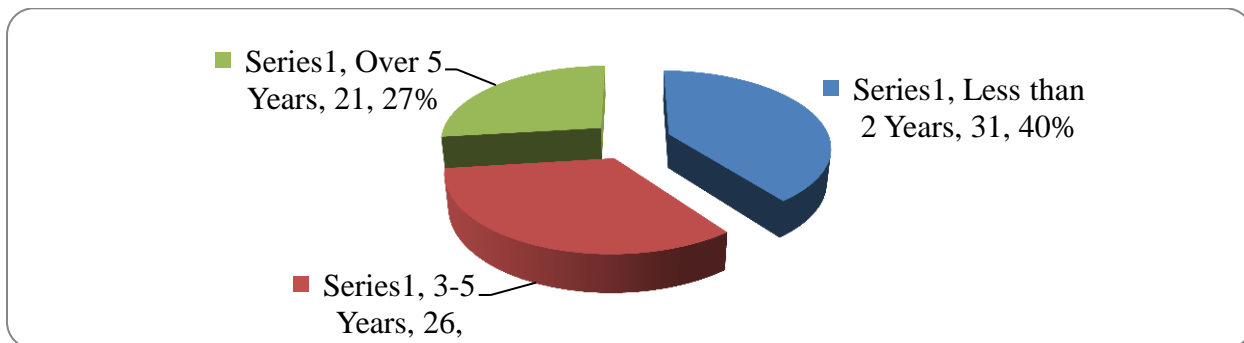


Figure 5: Years of SME operation

4.3 Descriptive Statistics

4.3.1 Cost Leadership

The first objective of the study was to determine the influence of cost leadership on the performance of SMEs in Kenya. The results are presented in Table 1. On the question on whether there was cost minimization in research and development, majority (80.7%) of the respondents agreed, 11.5% disagreed while 7.7% of the respondents were neutral. Majority (80.8 %) of the respondents affirmed that they offer cheaper rates influence the performance of SME's, 6.4% were neutral while 12.8% disputed the statement. Another 77.0% of the respondents indicated that they source products from cheaper suppliers, 9% were neutral while 14.10% of the respondents did not agree with the statement. Seventy seven percent (77%) of the respondents agreed that there was division of labour, 17.9% did not agree while another 5.10% were neutral. Finally, 78.20% of the respondents indicated that savings in costs allowed the SME's to offer its product for bargaining, 16.6% did not agree while only 5.10% were neutral on the statement. On a five point scale, the average mean of the responses was 4 which means that majority of the respondents were agreeing to the statements in the questionnaire. The standard deviation was 1 meaning that the responses were clustered around the mean response.

Table 1: Cost Leadership

Statement	Strongly Disagree	Disagree	Neutra l	Agree	Strongly Agree	Mean	Std Dev
There is cost minimization in research and development, advertising and sales force.	6.40%	5.10%	7.70%	41.00%	39.70%	4	1
We offer products at a cheaper rate than our competitors.	5.10%	7.70%	6.40%	38.50%	42.30%	4	1
Products are usually sourced from cheap suppliers.	7.70%	6.40%	9.00%	44.90%	32.10%	4	1
Division of labor allows us to hire and train inexperienced employees rather than employing experienced ones.	5.10%	12.80%	5.10%	32.10%	44.90%	4	1
Savings in cost allow the SME to offer its products/services for bargain prices.	11.50%	5.10%	5.10%	29.50%	48.70%	4	1
Average						4	1

4.3.2 Strategic Alliances

The study sought to determine the influence of strategic alliances on the performance of SME's in Kenya. Majority of the respondents (79.5%) were agreeing to the statement that there exists cooperation agreement with other SMEs to gather and share market information, 6.4% were neutral while 14.10% were generally disagreeing with the statement. On the question of whether there exist technology alliances relating to product research and development, majority (82.10%) of the respondents affirmed, 11.5% were neutral while 6.4% disagreed. The respondents were required to indicate whether there are alliances in the sector to jointly carry out tasks with other SMEs, majority (83.30%) agreed with the statement, 6.4% were neutral with another 10.30% disagreed. On the question on whether strategic alliances have led to risk reduction, majority (75.7%) of the respondents agreed with the statement, 7.7% were neutral while 16.7% disagreed. Further when the respondents were asked whether sharing of human resources and management skills improved SME's performance, a great majority (79.50%) agreed with the statement, 9% were neutral while 11.50% disagreed. On a five point scale, the average mean of the responses was 4 which means that majority of the respondents were agreeing to the statements in the questionnaire. The standard deviation was 1 meaning that the responses were clustered around the mean response.

Table 2: Strategic Alliances

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
We have a cooperation agreement with other SMEs to gather and share market information.	2.60%	11.50%	6.40%	47.40%	32.10%	4	1
There exist technology alliances relating to product research and development.	3.80%	2.60%	11.50%	43.60%	38.50%	4	1
There are alliances in the sector to jointly carry out tasks with other SMEs.	1.30%	9.00%	6.40%	50.00%	33.30%	4	1
Strategic alliances have led to risk reduction.	10.30%	6.40%	7.70%	30.80%	44.90%	4	1
There is sharing of human resources and management skills.	5.10%	6.40%	9.00%	37.20%	42.30%	4	1
Average						4	1

4.3.3 Market Focus

The third objective of the study was to determine the influence of market focus on the performance of SME's in Kenya. Majority (69.2%) of the respondents affirmed the statement that they review the likely influence of changes in business environment on customers, 14.10% were neutral while 16.7% were not in agreement with the statement. On the question of strength and influence of the firm, majority 66.70% agreed that the SMEs strength was the influence and efficient customer analysis, on the statement whether the firm responds to factors affecting its market, majority of the respondents (66.70%) agreed with the statement, 14.10% were neutral while 19.20% were neutral. Sixty six percent of the respondents (66.6%) indicated that top management team discusses competitors' strengths and weaknesses, 7.7% were neutral while 25.7% disagreed. Further, 62.9% of the respondents indicated that they took advantage of targeted opportunities. On a five point scale, the average mean of the 2.9 which means that majority of the respondents were agreeing to the statements in the questionnaire. The standard deviation was 1.4 meaning that the responses were clustered around the mean response.

Table 3: Market Focus

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
We review the likely influence of changes in our business environment on customers.	7.70%	9.00%	14.10%	34.60%	34.60%	4	1
A major strength of this firm is influence and efficient customer analysis	6.40%	14.10%	12.80%	38.50%	28.20%	4	1
The firm responds to factors affecting its market	6.40%	12.80%	14.10%	35.90%	30.80%	4	1
The top management team discuss competitors' strengths and weaknesses	9.00%	16.70%	7.70%	39.70%	26.90%	4	1
We take advantage of targeted opportunities to take advantage of competitors' weaknesses	10.30%	19.20%	7.70%	24.40%	38.50%	4	1
Average						4	1

4.3.4 Differentiation

The study further sought to determine the influence of differentiation strategy on SME performance. Majority (79.5%) of the respondents were in agreement that customers viewed the SME as an innovative company, 15.4% disagreed while 5.1% were neutral. On the statement whether their establishment had highly skilled and creative product development team, majority (78.2%) agreed with the statement, 5.1% were neutral while 16.6% disagreed. The respondents were asked to indicate if they had strong sales team, majority (75.7%) agreed, 5.1% were neutral 29.2% disagreed. On the issue of successful scientific research, majority (82%) of the respondents affirmed its existence, 9% disagreed while another 9% were neutral about the statement. Further 84.6% of the respondents indicated that their products and services have technical superiority over others in the industry, 2.6% were neutral while 12.8% disagreed. On a five point scale, the average mean of the responses was 4 which means that majority of the respondents were agreeing to the statements in the questionnaire. The standard deviation was 1 meaning that the responses were clustered around the mean response.

Table 4: Differentiation

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
Customers view us as an innovative company	9.00%	6.40%	5.10%	50.00%	29.50%	4	1
Our establishment has highly skilled and creative product development team.	12.80%	3.80%	5.10%	38.50%	39.70%	4	1
There is a strong sales team within the SME's.	7.70%	11.50%	5.10%	46.20%	29.50%	4	1
We have access to leading scientific research	2.60%	6.40%	9.00%	48.70%	33.30%	4	1
Our product and services have superior technical specifications as compared to others in the market.	9.00%	3.80%	2.60%	47.40%	37.20%	4	1
Average						4	1

4.4 Inferential Statistics

4.4.1 Correlation Analysis

Correlation analysis was carried out in order to determine the strength and direction of the relationship between the dependent and independent variables. Results in Table 5 present the results of the correlation analysis. The results presented in the Table 4.6 shows that cost leadership and SME's performance are positively and significant associated ($r=0.484$, $p=0.000$). The results further indicates that strategic alliances and SME's performance are positively and significantly associated ($r=0.238$, $p=0.036$). It was further established that market focus is positively and significantly associated to SME's performance ($r=0.385$, $p=0.001$). Finally, results showed that differentiation and SME's performance were positively and significantly associated ($r=0.413$, $p=0.000$).

Table 5: Correlation Matrix

		SME performance	Cost leadership	Differentiation Strategy	Market Focus	Strategic Alliances
SME performance	Pearson Correlation	1	.484**	.413**	.385**	.238*
	Sig. (2-tailed)		0.000	0.000	0.001	0.036
Cost leadership	Pearson Correlation		1	.586**	0.144	.465**
	Sig. (2-tailed)			0.000	0.208	0
Differentiation Strategy	Pearson Correlation			1	0.002	.489**
	Sig. (2-tailed)				0.985	0.000
Market Focus	Pearson Correlation				1	-0.06
	Sig. (2-tailed)					0.604
Strategic Alliances	Pearson Correlation					1

4.4.2 Regression Analysis

Regression analysis considers the nature and form of a relationship between any two or more variables. Regression analysis was carried out on the data to indicate the direction and strength of the relationship between the dependent and independent variables. The results presented in table 6 present the fitness of model used of the regression model in explaining the strategy implementation. The independent variables (cost leadership, market focus, differentiation and market alliances strategies) were found to explain 45.8% of the variations in SME performance. This is supported by coefficient of determination also known as the R square of 0.458. The coefficient of determination measures the proportion of the total variation in the dependent variable explained by the regression model. This results further means that the model applied to link the relationship of the variables was satisfactory.

Table 6: Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate
Model	.677	0.458	0.428	0.6704

Table 7 shows the ANOVA results. The null hypothesis is that there is no linear relationship between the variables (in other words $R^2=0$). The F-statistic is highly significant, thus we can assume that there is a linear relationship between the variables in our model. The overall model was significant with an F statistic of 15.421. Table 4.8 shows that variations in SME performance can be explained by the model to the extent of 27.723 out of 60.532 or 45.8% while other variables not captured by this model can explain of the 54.2% (32.809 out of 60.532) of the variations in SME performance.. The F value of the model produces a p-value of 0.000 which is significantly the same as zero. A p-value of 0.000 is less than the set level of significance of 0.05 for a normally distributed data. This means that the model is highly significant in explaining influence of competitive strategies on SME performance.

Table 7: Analysis of Variance

		Sum of Squares	df	Mean Square	F	Sig.
ANOVA	Regression	27.723	4	6.931	15.421	.000
	Residual	32.809	73	0.449		
	Total	60.532	77			

The regression model in Table 8 indicates that a unit change (1%) in cost leadership strategy in SMEs causes an increase of 0.456 (45.6%) change in SME performance. This indicates that cost leadership strategy has an influence on SME performance in Kenya. A unit change (1%) in strategic alliances leads to an increase of 0.351 (35.1%) in SME performance. A unit change in market focus leads to a positive change of 0.463 (46.3%) change in SME performance. A unit increase in differentiation strategy leads to a positive change of 0.363 (36.3%) in SME performance in the CBD. This shows clearly that adoption of competitive strategies has contributed to a positive effect on the performance of SMEs in Nairobi CBD in Kenya. .

Table 8: Regression Analysis

		B	Std. Error	T	Sig.
Regression	(Constant)	0.252	0.601	0.419	0.677
	Cost leadership	0.456	0.107	4.274	0.000
	Strategic alliances	0.351	0.128	2.74	0.037
	Market focus	0.463	0.089	5.202	0.000
	Differentiation	0.363	0.126	2.881	0.019

The multiple linear regression model is as shown below.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

X₁ = Cost Leadership

X₂ = Differentiation

X₃ = Market Focus

X₄ = Strategic Alliances

Y = performance of SME's

Thus, the optimal model for the study is;

$$\text{Sustainable SME's performance} = 0.252 + 0.456 \text{ Cost Leadership} + 0.163 \text{ Differentiation} + 0.463 \text{ Market Focus} + 0.351 \text{ Strategic Alliances}$$

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

5.1.1 Cost Leadership and SME Performance

The first objective of the study was to determine the influence of cost leadership on the performance of SMEs in Kenya. Correlation results revealed that cost leadership has a positive

and significant association with SME performance. This was supported by a Pearson coefficient of 0.484 and a p-value of 0.000. The regression results also revealed that cost leadership has a positive and significant influence on SME performance. This was supported by a beta coefficient of 0.456 and a p-value of 0.000. This is an implication that cost leadership influences the performance of SMEs.

The findings corroborate those of Prajogo (2012) who examined the underlying strategic intent of quality performance cost leadership whereby results indicated that the higher the cost leadership, the stronger the quality performance. The findings also agree with those of Hilman (2013) who examined the body of knowledge that relates Porter's cost leadership strategy and competitor orientation to organizational performance. His study findings show that cost leadership strategy has significant influence on organizational performance and competitor orientation.

5.1.2 Differentiation and SME Performance

The second objective was to assess the extent to which differentiation strategy affects performance of small and medium enterprises in Kenya. Correlation results revealed that differentiation strategy has a positive and significant association with SME performance. This was supported by a Pearson coefficient of 0.413 and a p-value of 0.000. The regression results also revealed that differentiation strategy has a positive and significant influence on SME performance. This was supported by a beta coefficient of 0.363 and a p-value of 0.019. This is an implication that differentiation strategy influences the performance of SMEs.

The findings are in line with those of Luliya *et al.*, (2013) who examined the mediating role performance measurement plays in the relationship between competitive strategies and firm performance. The study found that generally, all competitive strategies positively and significantly enhance firm performance through performance measurement. Specifically, firms' differentiation strategy not only has a direct and significant impact on firm performance but also it has indirect and significant impact on firm performance through financial measures. The findings dispute those of Khaled (2012) who investigated the relationship between differentiation strategy and organizational performance and the result of multiple regression analysis indicated that differentiation strategy has no significant influence on organizational performance. The findings agree with those of Spencer *et al* (2010) who examined the mediating role of both non-financial and financial performance measures in the relationship between a differentiation strategic orientation and organizational performance. The results indicate that there is a positive association between a firm's strategic emphasis on differentiation and organization performance through the mediating role of non-financial and financial performance measures.

5.1.3 Market Focus and SME Performance

The third objective was to examine the relationship between market focus and performance of small and medium enterprises in Kenya. Correlation results revealed that market focus has a positive and significant association with SME performance. This was supported by a Pearson coefficient of 0.385 and a p-value of 0.001. The regression results also revealed that market focus has a positive and significant influence on SME performance. This was supported by a beta coefficient of 0.463 and a p-value of 0.000. This is an implication that market focus influences the performance of SMEs.

These findings concur with those of Egeren and O'Connor (2012) who used indicated that a significant positive relationship exists between market orientation and performance in service businesses. The findings are also in line with those of Atuahene (2013) that indicated that market orientation has significant relationships with certain (but not all) aspects of innovation. The findings also corroborate those of Asikhia (2010) who studied market-focused strategic flexibility as one survival strategy needed. The overall results suggested that market-focused strategic flexibility is a driver of organizational positioning in a dynamic environment, and it is also found to moderate the market orientation sales growth relationship studied and environmental variables influence its relationship with sales growth in most firms.

5.1.4 Strategic Alliances and SME Performance

The fourth objective was to determine the extent to which strategic alliances affect performance of small and medium enterprises in Kenya. Correlation results revealed that strategic alliances have a positive and significant association with SME performance. This was supported by a Pearson coefficient of 0.238 and a p-value of 0.036. The regression results also revealed that strategic alliances have a positive and significant influence on SME performance. This was supported by a beta coefficient of 0.351 and a p-value of 0.037. This is an implication that strategic alliances influence the performance of SMEs.

The findings support those of Muthoka and Oduor (2014) who examined the influence of strategic alliances on performances. The objectives of the study were: to establish the influences of technological, production and marketing strategic alliances on the performance of supermarkets and their alliances in Kenya. The empirical results of the study indicated that strategic alliances had a strong relationship with performance which suggests that strategic alliance contributes positively towards performance. The current study findings are in line with those of Camison et al., (2014) that provided an empirical evidence of the relationship that exists between participation on in technological strategic alliances and business performance. The results findings prove that the relationship between R&D and innovation strategic alliances and performance is mediated by the generation of knowledge-based distinctive competencies and that the contribution of the participation in alliances to the growth of the firm's knowledge stock depends on its creation of innovation competencies. Finally, the study findings agree with those of Lee (2012) who examined whether the new ventures success of small and medium enterprises (SMEs) in the biotech industry relates with the characteristics of strategic alliances. The findings are generally consistent with the literature. The study supports all hypotheses. Consequently, the results show that strategic alliances improve SMEs' new venture success.

5.2 Conclusions

Based on the study findings, the study concluded that most of the SMEs have competitive strategies in place. This conclusion was arrived at by observing that there is cost minimization in research and development, advertising and sales force, the SMEs offer products at a cheaper rate than competitors, products are usually sourced from cheap suppliers, there is division of labor allows us to hire and train inexperienced employees rather than employing experienced ones, and that savings in cost allow the SME to offer its products/services for bargain prices. On the topic of differentiation, this study concluded that differentiation affected performance of the SMEs through innovations, superior technical abilities, strong sales team, scientific research and a highly skilled and creative product development team. Differentiation strategy was an approach

under which SMEs aimed to develop and market unique services and products for different customer segments. The study also concluded that market focus affected performance of the SMEs through team discussions on competitors' strengths and weaknesses prompt response to factors affecting its market and efficient customer analysis.

5.3 Recommendations

5.3.1 Cost Leadership and SME Performance

The study recommends that SMEs should embrace and invest in cost leadership strategies most especially forming linkages with service providers, suppliers and other supplementary institutions since it will enable them achieve competitive advantage as compared to other SMEs that are not investing in cost leadership.

5.3.2 Differentiation and SME Performance

SME management ought to focus and invest more on differentiation as it could be used as a major competitive advantage tool against competitors in the industry and it is capable of guaranteeing the long term survival of the organization.

5.3.3 Market Focus and SME Performance

The study recommends that SMEs should know on what basis to segment their products, services and operations. As the markets become dynamic and consumers more irregular and fickle, the SMEs need some form of market segmentation to efficiently satisfy the market needs. What makes an organization different from a competitor's should be established.

5.3.4 Strategic Alliances and SME Performance

Strategic alliances should be correctly implemented and aligned with the objectives of the SMEs. SMEs should embrace strategic alliances to increase their market share.

5.4 Suggestions for Further Research

The scope of the study was constrained to SMEs in Nairobi CBD. The study therefore recommends that a similar study could be carried out in other organizations to find out whether the same results will be obtained. A similar study should also be carried out to investigate the effect of competitive strategies on the performance among SMEs in other areas in Nairobi and other cities to allow for generalization. This study also suggests that a research study could be carried out to determine factors influencing effective implementation of competitive strategies in SMEs.

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