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EFFECT OF COMPETITIVE STRATEGIES ON THE PERFORMANCE OF SMEs IN KIAMBU COUNTY, KENYA

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Abstract

Purpose: The ever dynamic competitive business environment pose major challenges to SMEs like many other organizations in Kenya and managers have been struggling to compete favorably. According to Porter, superior performance can be realized through pursuit of a competitive generic Strategy. Hence identification and pursuit of the right competitive strategies as a source of superior performance has become a priority in many organizations. Be that as it may, the application of the right strategies is still a concern in many SMEs which have made little effort to comprehend how Generic Strategies can give them a performance advantage over their rivals. Thus, the objectives of this study included examining the effect of Cost leadership, Differentiation and Focus Strategies on the performance of SMEs in Kiambu County.

Methodology: The study was guided by Porters Competitive Strategy Theory, Resource Based View Theory and Resource Dependence Theory. A descriptive research design will be used targeting 889 SMEs belonging to different sectors; manufacturing has 113, agricultural has 226, essential services that include private schools and health facilities have 217, general merchandise like shops and supermarkets have106, commercial services and other service industries are a total of 227. Proportionate sampling technique was used to select the sample size. Data was collected using questionnaires and then analyzed using correlational and regression analysis. Data was presented in form of means and standard deviation by means of tables.

Findings: The findings of the study confirmed that Differentiation, Cost leadership and Focus strategy had a significant influence on the performance of Small and Medium Enterprises in Kiambu County.

Unique contribution to theory, practice and policy: The study therefore recommends that the government comes in handy to support the SMEs by providing legislation aimed at providing a conducive environment to allow for full operationalization of Competitive strategies which would consequently translate to national economic growth.

Key Words: *Cost leadership, Differentiation, Focus Strategies and Performance of SMEs*

Background of the Study

Small and medium-sized businesses (SMEs) are critical to national economies since they contribute considerably to employment and GDP. Small and medium-sized businesses (SMEs) create the bulk of jobs in most countries. Competitive strategy is the pursuit of a solid competitive position in an industry, which is the primary arena in which competition occurs (Porter, 1985). In the face of the factors that determine industry rivalry, the goal of competitive strategy is to build a profitable and long-term position. In a dynamic environment, this necessitates identifying sources of competition and then implementing solutions that are customized to the organization's ability to cope with the changes (Arasa & Githinji, 2014). All of the tactics that a company has taken and is doing to attract buyers, endure competitive pressure, and improve its market position are referred to as competitive strategy (Thompson & Strickland, 2010). Porter (2012) presented three competitive strategy techniques. They include: aiming to be the lowest-cost producer overall, or low-cost leadership strategy; attempting to differentiate one's product offering from that of competitors, or differentiation strategy; and concentrating on a small segment of the market, or focus or niche strategy (Arasa & Githinji, 2014). In today's ever changing business environments, organizations compete for customers, market share, revenue with products and services that meet customer's needs. Global competition has brought about technological changes with customers demanding for superior quality products/services with lower prices (Dirisu et al., 2013).

Moreover, this increased rate of global competition has led to reduction in product life cycle which has necessitated much emphasis being placed on organizational competencies and creation of competitive advantage with the hope of giving an edge over other competitors. Though there are many objectives a firm would want to pursue achieve these days, yet the two major ones are achieving a competitive advantage position and enhancing their organization's superior performance against that of their competitors (Raduan et al., 2014).In the 30 high-income countries of the Organization for Economic Cooperation and Development (OECD), SMEs with fewer than 250 employees represent over two-thirds of formal employment. In high-income countries, and some middle-income countries, the sector accounts for over half of national output (OECD, 2005) SMEs in developing countries primarily face issues relating to business regulations and restrictions, finance, human resource capabilities and technological capabilities (Visser, 2013). SMEs face challenges in their business operating environment (both internal and external). The success is pegged on beating stiff competition from larger-sized firms made possible by embracing a mix of strategies, strategic leadership, and proper utilization of available resources to achieve competitive advantage (Mutisya, 2013). With the increased competition in the business industry in Kenya, small and medium sized firms are increasing their operations to other regions to the end that they 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.

Statement of the Problem

The small and medium-sized enterprise (SME) sector plays a vital role in developing economies not only in economic development, but also in poverty alleviation and job creation. Despite their significance, past statistics indicate that three out of five SMEs fail within the first few months of operation and those that continue 80 per cent fail before the fifth year (Kenya National Bureau of Statistics, 2007). Deloitte Kenya Economic outlook 2016 notes that Kenyan SMEs are constrained by inadequate capital, limited market access, poor infrastructure, inadequate knowledge and skills, rapid changes in technology, corruption, unfavorable regulatory environment. Purity (2018) study on challenges faced by female entrepreneurs and strategies adopted to ensure business growth in selected MSMEs in Juja Sub County concluded that domestic commitments, lack of managerial training and experience are among the major drawbacks leading to closure of women owned SMEs in the first two years of operation. These challenges are exacerbated by stiff competition within and globally from rivals. Although, there are numerous benefits that accrue to firms that apply strategic management, there are still many SME organizations that remain adamant in applying these strategies. It is crucial for firms to outperform their competitors in the industry, which is not a reserve for large organizations alone but for SMEs as well (Pushpakumari & Watanabe, 2010). Moreover, there is still daunt research that has been conducted in Kenya on the effects of adoption of competitive strategies on the performance of SMEs in Kenya. Given the increasing intensity of competition and the demands and expectations of customers and potential customers for quality products and services, firms are on a daily basis strategizing in order to remain competitive sustainably and Kenyan SMEs are not an exception. This paper therefore seeks to establish the effect of the adoption of generic competitive strategies on performance of SMEs in Kiambu County.

Objectives of the Study

i. To investigate effect of Cost leadership strategy on performance of SMEs in Kiambu County
ii. To determine effect of Differentiation strategy on performance of SMEs in Kiambu County.
iii. To establish effect of Focus Strategy on the performance of SMEs in Kiambu County

Research Questions

i. What is the effect of Cost leadership strategy on performance of SMEs in Kiambu County?
ii. What is the effect of Differentiation Strategy on performance of SMEs in Kiambu County?
iii. What is the effect of Focus Strategy on the performance of SMEs in Kiambu County?

LITERATURE REVIEW

Theoretical Review

Porter Generic Strategies Model

This model was described by Michael Porter in 1980. Porter's generic strategy describes how an organization pursues competitive advantage across its chosen market scope. There are three generic strategies namely; Cost Leadership, differentiation, and focus. A company seeks to pursue one of two types of competitive advantage, either by lowering costs than its competition or by differentiating itself along dimensions and aspects valued by customers to command a higher price. A company also may choose one of the two types of scopes; focus (offering its products to selected segments of the market) or industry-wide (offering its product across many market segments)Porter wrote in 1980 that strategy targets either cost leadership, differentiation, or focus. These are known as Porter's three generic strategies and can be applied to any size or form of business ranging from SMEs to multinationals. Porter posited that a company must only choose one of the three or risk that the business would waste precious resources. In addition to this Porter postulated that there are forces within the business operating environment that influence competition in an industry. Porter summarized these forces as the rivalry among existing firms, threat of new entrants, substitute products or services, bargaining power of suppliers and bargaining power of buyers. Porter came up with generic competitive strategies to counter these competitive forces (Barney, 2007 & Porter, 1998).

Cost leadership strategy allows the firm to be a low-cost producer and thus making more profits than rivals due to reduced 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. They usually focus on being the low cost producer in an industry for a given level of quality, and then sell these products at either the average industry price to earn profits higher than rivals or below the average prices in order to gain or increase their market share. These firms take advantage of their low cost of production to be able to sell at below-average prices (Barney, 2007; Porter, 1998). In case of price wars, such firms can maintain profitability when the rivals continue to suffer losses. Cost leadership as a strategy, is majorly used by firms that target broad markets. Firms undertaking cost leadership strategy acquire cost advantage by improving processes, increasing efficiency, and gaining access to lower production costs or material costs either through vertical integration or adopting optimal outsourcing (Porter, 1998, Johnson et al., 2005).

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. Differentiation is as result of the way a firm's products or services and the related activities affect the buyers' activities. This strategy is incorporated with the value chain framework to reinforce its application in firms' activities. All activities in the value chain (actions or characteristics that add value to a product or service) contribute to the buyer value. The cumulative costs in the value chain determine the value cost that is usually a premium price charged for the product or service (Porter, 1998). Firms that successfully implement the differentiation strategy gain by increasing their internal strengths through highly skilled and creative product development teams as well as having access to the leading scientific research due to innovation. They also gain in improving their reputation for better quality and continued innovation. Differentiation strategy enables firms to achieve higher profits due to the premium prices charged for added value (Porter, 1998).

Focus is the third generic strategy, and it combines the first two generic strategies. The approach is centered on catering to a specific customer base at the expense of others in the market. These are buyers who have unique requirements, and the company offers to tailor its services or products to meet their needs. The way these tactics are implemented differs from company to company, and it is heavily influenced by industry factors (Porter, 1998). This strategy allows companies to focus on a certain market segment in order to accomplish either the cost leadership or differentiation strategies mentioned above. It is founded on the premise that by focusing solely on the demands of a small group of clients, these needs can be better satisfied (Barney, 2007; Porter, 1998). Companies that use this method obtain a high level of client loyalty, which prohibits competitors from directly competing with them. This method, on the other hand, may lead to low production quantities and client numbers. However, it is characterized by lesser supplier negotiating power, which means that the firm will seek to pass on greater prices to customers because there are few substitutes for the product or service. This becomes disadvantageous to customers who have no choice but to buy at the price set by the firm (Barney, 2007; Johnson et al., 2005).

Resource-Based View Theory

The resource-based view (RBV) of Wernerfelt (1984) suggests that competitiveness can be achieved by innovatively delivering superior value to customers. The extant literature focuses on the strategic identification and use of resources by a firm for developing a sustained competitive advantage (Barney, 1991).The core idea of the theory is that organizations should look within at the resources and potential it already has instead of focusing on the competitive external environment. In strategic management research, RBV theory has emerged as one of the theoretical perspectives used to explain the continuity in inter-firm performance differences (Barney and Griffin, 1992). According to RBV theory, firms have collections of unique resources and capabilities that are valuable, rare, inimitable and non-substitutable and which are able to provide them with a sustainable competitive advantage. As a result, resources are real and intangible assets that a company owns or controls, whereas capabilities relate to a company's ability to exploit and combine resources through organizational processes in order to meet its goals (Amabile et al, 1996It is crucial to research how internal and external resources can be influenced by competitive strategy and enable an organization's capabilities to improve innovation performance by using RBV theory in this study (Galbreath 2005).

According to Nahapiet and Ghoshal (1998), the term "intellectual capital" refers to the knowledge. and knowing capability of a social collectivity, such as an organization, intellectual community, or professional practice" , while social capital is defined as ”the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit”. Intellectual capital is a valuable resource in the form of accumulated knowledge which is embedded within an organisation, while social capital resides in the relationships firms have with their network partners. Nahapiet and Ghoshal (1998) argued that innovation is the ultimate outcome of the creation of new knowledge which results from the combination and interaction between intellectual capital and social capital of firms. SMEs also are endowed with these two sets of capital or resource that require effective and efficient management to ensure the enterprises competitive favorably and perform.

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Resource Dependence Theory

The resource dependence theory was posited by Pfeffer and Salancik in 1978. Firm success in resource dependency theory (RDT) is defined as organizations maximizing their power (Pfeffer 1981). According to RDT, actors who lack vital resources would strive to form relationships with (and become reliant on) others in order to gain them. Organizations will also try to change their dependency relationships by reducing their own reliance or increasing the reliance of other organizations on them. As a result, organizations are seen as coalitions that coordinate their structure and behavior in order to gain and keep needed external resources. Obtaining the external resources required by an organization is accomplished through reducing the organization's reliance on others and/or increasing others' reliance on it, i.e., altering the organization's power over other organizations. The theory argues that organizations depend on resources, these resources ultimately originate from an organization's environment, the environment, to a considerable extent, contains other organizations, the resources one organization needs are thus often in the hand of other organizations, resources are a basis of power, legally independent organizations can therefore depend on each other and power and resource dependence are directly linked. Organizations depend on multidimensional resources: labor, capital and raw material. Organizations may not be able to come out with counteracting initiatives for all these multiple resources. Hence organization should consider the principle of criticality and principle of scarcity. Critical resources include those resources the organization must have to function. An organization may adopt various countervailing strategies like associating with more suppliers, or integrate vertically or horizontally. International sources, such as owners or proprietors, or external sources, such as MFIs or donors, provide resources to SMEs. Stakeholders in both ecosystems are critical to the success of the businesses. The proper usage of resources by SME owners, the majority of whom are uninformed and have poor management abilities, tends to misuse or even fail to identify them, which hurts their competitiveness. As a result, competitive strategies are designed to put SMEs in a better position to stay afloat in an ever-increasingly competitive business climate.

Conceptual Framework

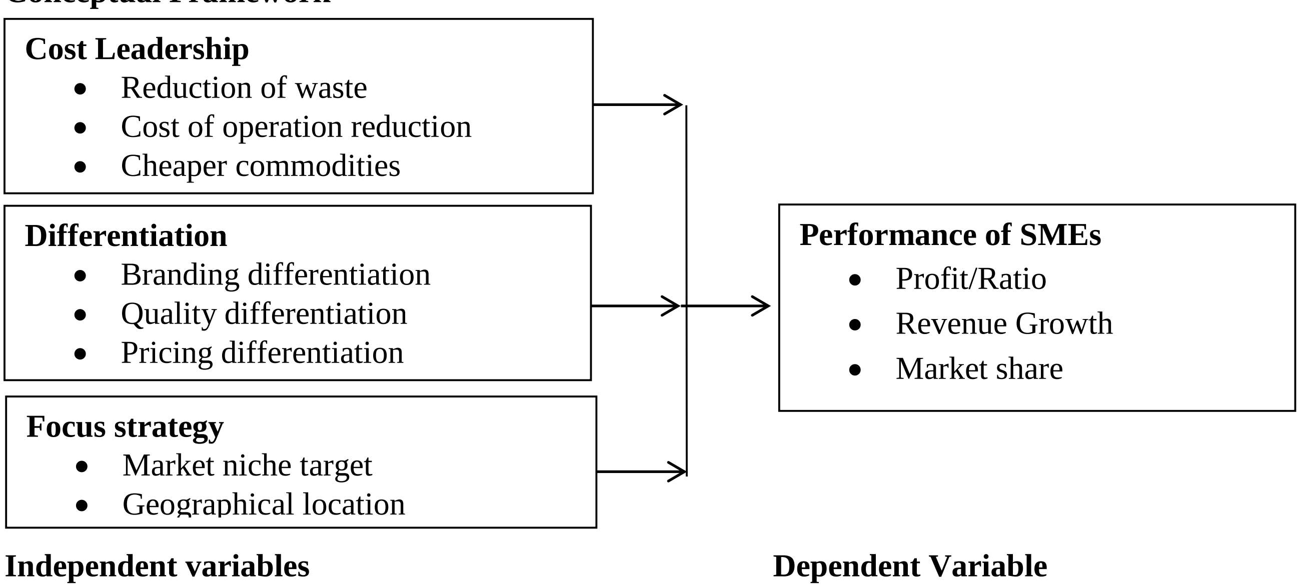

Figure 1: Conceptual Framework

Differentiation Strategy and Organization Performance

According to Porter (1980), a differentiation strategy is a business strategy aimed at improving the perceived value of a company's products or services in comparison to those of competitors in order to generate customer preference based on unique qualities. Differentiation of products and services is always a question of customer perception, but businesses can affect these perceptions in a variety of ways. Differentiation can be applied to a product to improve its appeal, or to a service by utilizing after-sales services such as quality considerations, reward programs, and extended operation hours, among other things (Kamau, 2013). Prajogo and Sohal's (2006) study indicated that Total Quality Management function was positively associated with differentiation strategy. Additionally, Prajogo (2007) also established that quality of the product was influenced by differentiation strategy in comparison to cost leadership strategy. An organization can separate itself by offering unrivaled assistance, sending off successful advancements, offering interesting elements and fostering a solid brand name (Li and Zhou, 2010). Hilman (2009) sees that organizations that utilization a separation procedure will quite often lay out multifaceted subtleties to have purchasers mindful of the effect of their contributions with those of the opposition.

Organizations that separate likewise will generally offer their items at marginally more exorbitant costs than contenders as remuneration for its extraordinary elements, the expense of the framework brief conveyance, nature of administration and circulation channels (Hilman, 2009; Porter, 1990). As indicated by Porter (2008), organizations that can effectively execute a differentiation system have the following qualities: admittance to the best scientific research, a highly skilled and creative product development team, a savvy sales team that can effectively communicate the product's perceived strengths, and a corporate reputation for quality and innovation. In general, the ability to differentiate is rare and expensive to replicate, but it is also a source of long-term economic advantage. The buyer's strength is weakened by scarcity because there are few alternatives to the company's offerings. Aliqah (2012) investigated the empirical evidence between differentiation strategy and organization firm performance among Jordanian manufacturing firms. The study utilized primary data which was collected via a closed-ended questionnaire. The study adopted measures of product differentiation strategy using Chenhall and Langfield-Smith (1998) five product differentiation tool, "providing high-quality products, fast deliveries, making changes in design and introducing new products and providing unique product features". Factor analysis was employed to consolidate the parameters and form a single index. Firm performance was operationalized as return on assets, sales growth rate, cash flow from operations, customer satisfaction, product quality and market development, all of which were measured using a five-point Likert scale. The respondents were requested to indicate the effect of each in relation to differentiation. The study results revealed that there was a positive and significant relationship between differentiation strategy and organizational performance.

Cost Leadership Strategy and Organization Performance

Cost leadership strategy entails the process by which the company undertakes to produce or distribute products and services at a lower cost than competitors in the same industry. Porter (1985) posits that cost leadership strategy is one of the most successful ways of achieving sustainable competitive advantage by being in a position to reduce and control costs, both production and non-production costs. Cost Leadership strategy creates a low-cost operation in their market niche with the main objective being attaining advantage over competitors; which is done by reducing operating costs below that of other players in the market. Cost leadership strategy is coined around

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organization-wide efficiency, therefore organizations implementing the strategy need to maintain a strong competitive position so as to sustain their profit margin overtime; they have to place a premium on operations efficiency in all the major functional areas (Porter, 1998). Firms implementing cost leadership strategy are capable of securing a large market share due to their low cost in the industry or market. Thus, organizations implementing the strategy can obtain super profits following their ability to lower prices to match or beat those of competitors and earn profits. By utilizing the strategy, the firm benefits from operation efficiency, effective price leadership, growth in the industry, lower prices, higher quality, or both (Spulber, 2009). With careful monitoring on purchasing expenditures, innovating best-practice organizational processes, application of computer and communications technology in a cost-effective way, minimizing overhead cost, and efficient operations, a firm can achieve the cost reduction.

Sometimes, cost reduction can also be realized by outsourcing manufacturing and other services when outside providers offer lower-cost alternatives, with the same quality level but lower cost, the low-cost firm could be able to undermine the price of competing firms. The reason for applying the strategy on cost leadership is to obtain the advantage by reducing economic costs amongst its competitors (Barney, 2002).Cost leadership strategies aim at ensuring timely and efficient processing of the demanded products and services. Provision of standardized products and services allows the firm to enjoy economies of scale while serving customer. With standardized products, the firm is able to search for different strategies to cut down cost. On the other side, the cost should not compromise the value of the products but instead complement it to be able to beat the value created by the competitors. One way of achieving a minimum cost as cited by Flynn et al., (2010) is through standardization of materials, products, and process or by having a centralized system. Internal integration processes on cross-functional collaboration also helps in forecasting demand, level scheduling and efficient warehouse management which are all in line with minimizing the process of production costs. This can further help increase the quality of customer service and reduce wastage (Swink & Nair, 2007). Valipour, Birjandi, and Honarbakhsh (2012) inspected the effect of cost authority and separation methodology and firm execution.

Utilizing informational collection acquired from yearly articulations of organizations cited in Tehran Securities Exchange and applying normal least squares (OLS) the relationship was tentatively tried. The discoveries from the review demonstrated an immediate relationship between cost administration procedure and firm execution as estimated by return on resources (ROA). Birjandi, Jahromi, and Darabi (2014) investigated the effect of cost leadership strategy on ROA and future performance of accepted companies in Tehran Stock Exchange (TSE). A purposive sampling dataset of 45 companies listed TSE in the period 2009-2013 was used. Cost leadership strategies were assessed by the ratio of sales to total assets, sales to capital expenditure and salaries to total assets. The results revealed the presence of a positive and significant connection between the two variables that is cost leadership strategy and firm performance. A study in Ghana by Yanney, Dennis, and Awuah (2014) focused on the business strategies that help Small and Medium Enterprises (SMEs) in the manufacturing sector to continue existing in the market. A sample of 100 SMEs was used, data was collected by use of questionnaires which were distributed randomly by a trained research assistant. Covering a period running from 2008 to 2013, results from one-way analysis of variance and regression showed a statistically significant impact of cost leadership strategy had a greater impact on firm performance measures than any other business strategy employed by SMEs.

Focus Strategy and Organization Performance

Focus strategy, according to Porter (2001), is a strategy that focuses on specific market sectors through overall cost leadership and differentiation rather than engaging in the entire market. This strategy comprises segmenting the market first, then focusing on a certain segment to assist the company get a competitive advantage. Firms opt to specialize by focusing on a specific consumer group, product line, geographic location, or service line (Darrow et al., 2001). The approach calls for an increasing market share if markets appear unattractive or are disregarded by larger competitors when operating in a niche market. A successful focus strategy depends on an industry segment large enough to have good growth potential but not of key importance to other major competitors (Atikiya, 2015). Focus strategy is seen as attractive and effective when customers have distinct preferences and when the position has not been pursued by rival firms (David, 2009). However, focus strategy threatens a company's growth when the market segment is too small to be economical, or if the segment starts to decline. This strategy is unique than the other two since, while differentiation and cost leadership strategies targets wide fractions of customers, focus strategy prefer to appeal to a section of the geographical area and a specified group of customers (Saif, 2015).

In Kenya's telecom market, Arasa and Gathanji (2014) explored the relationship between central authority and firm execution. Business execution and focus leadership have a strong and favorable association, according to both correlation and regression research. Aykan and Aksoylu looked at the impact of competitive tactics and strategic management accounting methodologies on perceived business success (2013). From manufacturing enterprises in Turkey, the analysis divided competitive techniques into three categories: cost leadership, focus leadership, and differentiation strategy. A regression analysis found that focus leadership and company execution have a favorable and critical relationship. Powers and Hahn (2003) undertook to investigate the critical competitive strategies used by commercial banks to enhance their performance. The critical strategies adopted were general differentiation strategy, focus strategy, stuck in the middle strategy, cost leadership strategy and customer differentiation strategy. Based on this study focus strategy was operationalized as a narrow range of services/products from a company, continued and renewed emphasis on marketing the product/service, having geographical focused products/services and continuously developing products to retain the market share it commands. Results of the study indicated that there was a significant relationship between focus leadership attribute and firm performance

Research Methodology

A descriptive research design (Survey) was adopted as being the appropriate outline to collect the data and analyze the findings to establish the effect of Porters generic strategies on the performance of SMEs in Kiambu County. All 889 SMEs in Kiambu County were included in the population of interest. A sample size of 268 SMEs were selected through Mugenda and Mugenda (1999) sampling formula. Structured questionnaire was used to gather information from the respondent.

Quantitative data collected was analyzed by the use of descriptive statistics using SPSS (Version 22) and presented through means, standard deviations and frequencies. One-way analysis of variance (ANOVA) was used to determine the significance of the relationship between differential, cost leadership and focus strategy on firm performance of the SMEs in Kiambu County firm while regression analysis was used to determine the direction of the relationship. Further, Pearson's correlation analysis was conducted to measure the strength of the association between these

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variables. The Pearson's bivariate correlation was used to test relationship between competitive strategy and firm performance. The degree of association in magnitude and statistical significance joint effect was based on multiple linear regression analysis which formed the following model:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$$

Where Y=Firm Performance, X1= Differentiation Strategy, X2= Cost Leadership Strategy, X3= Focus Strategy β1-β3= coefficients of the study variables and β0=constant.

Results

Out of the selected sample of 268 respondents, 30 representing 11.19% did not respond, hence only 238 (88.8%) questionnaires were useful for the analysis. According to Mugenda and Mugenda 2013, a response rate of 50% is adequate for analysis and reporting, 60% is good ad 70% and above considered excellent. Thus the response rate for this study was excellent

Descriptive Statistics

Differentiation Strategy

From the results in table 1, respondents moderately agreed to offer a road rage of products and services as a means of gaining competitive edge in the market as indicated by a mean of 2.99. Firms in Kiambu County also moderately strive to offer quality products and services as depicted by a mean of 3.01. Respondents were neutral with regards to the question of whether they are continually developing new products and services as indicated by a mean of 3.29. The respondents moderately agreed that they always strive to be the first ones to introduce a new product/service in the market and introduce innovative products/services better than those of competitors with means of 3.25 and 3.31 respectively. Evidently as shown above SMEs in Kiambu County have partially adopted Differentiation Strategy. This can be explained by the fact that there is a cost attached to differentiating products and services that the SMEs may not quite afford and also by the limited awareness and understanding about this strategy and how to fully optimize the benefits accruing to its application.

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Table 1: Descriptive Statistics on Differentiation Strategy

	N	Minimum	Maximum	Mean	Std. Deviation
We offer a broad range of product/services	238	1.00	5.00	2.9916	1.35320
We strive to offer quality products/services compared to those of competitors	238	1.00	5.00	3.0126	1.34848
We are continually developing new products/services	238	1.00	5.00	3.2941	1.43114
We always strive to be the first ones to introduce a new product/service in the market	238	1.00	5.00	3.2563	1.39826
We introduce innovative products/services which are better than competitors	238	1.00	5.00	3.3109	1.45102
Valid N (listwise)	238				

Cost leadership Strategy

As shown in the table 2 respondents, who are the owners of SMEs in Kiambu County agreed with regards to charging lower prices than their competitors as well as reduction of labor input by automation/improved technology with means of 3.53 and 3.44 respectively under the cost leadership strategy. They were neutral about seriously pursuing cost reduction at a mean of 3.28 claiming that this can only be done to a certain point beyond which incurring losses would be inevitable. They were also neutral or moderately agreed as to whether they source supplies from suppliers who offer discounts, and access to cheaper raw materials at a mean of 3.03 ad 3.00, claiming that they did not pay so much attention to this because at the end of the day it's the customers preference being met.

Table 2: Descriptive Statistics on Cost Leadership Strategy

	N	Minimum	Maximum	Mean	Std. Deviation
We target a specific market	238	1.00	5.00	2.9916	1.53439
We serve specific geographical market	238	1.00	5.00	3.2269	1.64040
We target broad price segments	238	1.00	5.00	3.4034	1.35833
We offer tailored products/services to meet customer demands	238	1.00	5.00	3.0714	1.55597
Improvement on products/service range to cater for diverse clients	238	1.00	5.00	3.1261	1.59934
Valid N (listwise)	238				

Focus Strategy

From the table 3, proprietors were neutral as to whether they target a specific market and serve a specific geographical market at a mean of 2.99 and 3.22 respectively. They also moderately agreed to offer tailored products/services to meet customer demands and improvement of products/service range to cater for diverse clients with means of 3.0 and 3.12 respectively. The respondents agreed that they target a broad range price segments, at a mean of 3.40. Generally it can be observed that the focus strategy is applied but not extensively. Combining it with cost leadership or differentiation strategy would be recommended to fully realize its benefits

Table 3: Descriptive Statistics on Focus Strategy

	N	Min	Max	Mean	Std. Dev
We target a specific market	238	1.00	5.00	2.9916	1.53439
We serve specific geographical market	238	1.00	5.00	3.2269	1.64040
We target broad price segments	238	1.00	5.00	3.4034	1.35833
We offer tailored products/services to meet customer demands	238	1.00	5.00	3.0714	1.55597
Improvement on products/service range to cater for diverse clients	238	1.00	5.00	3.1261	1.59934
Valid N (listwise)	238				

Firm Performance

The results in table 4 indicates that the respondents agreed that there was growth gross profit margin and revenue at a mean of 3.39 and 3.40 respectively. They moderately agreed to growth in Market share at a mean of 3.30, Improvement in customer retention at a mean of 3.28. They were neutral as to whether there was reduced employee turnover. Largely the respondents and SME owners/directors/managers agreed that the businesses were still experiencing post covid effects but gradually recovering.

Table 4: Descriptive Statistics on Firm Performance

	N	Minimum	Maximum	Mean	Std. Deviation
Growth in Gross profit Margin	238	1.00	5.00	3.3992	1.46849
Growth in Revenue	238	1.00	5.00	3.4160	1.36227
Growth in Market Share	238	1.00	5.00	3.3025	1.43232
Improvement in customer retention	238	1.00	5.00	3.2857	1.40609
Reduced Employee Turnover	238	1.00	5.00	2.9202	1.45463
Valid N (listwise)	238				

Inferential Statistics

Correlation Analysis Results

From the table 5 there is a strong positive relationship between Firm performance and differentiation strategy with a magnitude of 0.988. The relationship is also statistically significant with a P Value of 0.000 which is less than 0.01. The table above also shows a strong positive

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relationship between Cost leadership strategy and firm performance, with a correlation coefficient of 0.990. The P Value is less than 0.01 implying a significant relation exists a strong and positive relationship exists between firm performance and focus strategy with a coefficient of 0.983. The correlation is significant since the P Value is 0.000 which is less than 0.01.

Table 5. Pearson Correlation Coefficient Matrix

		Differentiation	Cost Leadership	Focus Strategy	Firm Performance
Differentiation	Pearson Correlation	1			
	Sig. (2-tailed)				
Cost Leadership	Pearson Correlation	.991**	1		
	Sig. (2-tailed)	.000			
Focus Strategy	Pearson Correlation	.979**	.990**	1	
	Sig. (2-tailed)	.000	.000		
	N	238	238	238	
Firm Performance	Pearson Correlation	.988**	.990**	.983**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	238	238	238	238

**. Correlation is significant at the 0.01 level (2-tailed).

Regression Analysis

The researcher carried out multiple regression analysis to establish the influence of Porters competitive strategies on organizational performance of SMEs in Kiambu County. The results in table6 above indicates the Model Summary. From the findings Adjusted R Square of 0.983 implies that 98.3% of changes in the firm performance of SMEs in Kiambu County is explained by the independent variables of the study. There are however other factors that influence the performance of SMEs in Kiambu County, Kenya that are not included in the model that accounts for 1.7%

Table 6 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	.983	.983	.18151

a. Predictors: (Constant), Focus Strategy, Differentiation, Cost Leadership

From the ANOVA table 7, F calculated is 4632.91 while the F Critical is 2.64. The value is greater than the F Critical ad thus the model was significant and reliable indicator of the study findings.

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In terms of the P Values the study indicated .0.000 which is less than 0.05 and thus statistically significant.

Table 7 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	457.894	3	152.631	4632.910	.000[b]
	Residual	7.709	234	.033		
	Total	465.604	237			

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), Focus strategy, Differentiation, Cost leadership

The resultant regression equation is;

Y = 0.139 +0.439X1 + 0.380X2 + 0.156X3

Where Y is the Firm performance of SMEs in Kiambu County, Keya. **β0, β1, β2 and β3** are regression- coefficients and X1, X2, X3 represent Differentiation, Cost leadership ad Focus Strategy respectively. This implies that when all the independent variables are held at constant zero, performance of SMEs in Kiambu County will be at the intercept which is 0.139. A unit increase in the differentiation strategy will result to 0.439 Increase in the performance of the SMEs in Kiambu County. A unit improvement in cost leadership strategy will translate to 0.380 improvement in firm performance. Similarly a unit increase in focus strategy will result in 0.156 increase in firm performance

Table 8 Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.139	.031		4.421	.000
	Differentiation	.439	.063	.431	6.986	.000
	Cost leadership	.380	.086	.396	4.399	.000
	Focus strategy	.156	.056	.169	2.791	.006

a. Dependent Variable: Firm Performance

Summary of the Findings

Differentiation Strategy and Firm Performance

The study findings revealed that SMEs in Kiambu County have moderately adopted differentiation Strategy to remain competitive in the market. This has been realized by firms offering a broad range of products and services as a means of gaining competitive edge I the market. Firms in Kiambu County have also moderately been striving to offer quality products and services. Respondents were neutral with regards to the question of whether they are continually developing new products and services as indicated by a mean of 3.29. The respondents moderately agreed that they always strive to be the first ones to introduce a new product/service I the market ad introduce

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innovative products/services better than those of competitors with means of 3.25 and 3.31 respectively. Evidently as shown above SMEs in Kiambu County have partially adopted Differentiation Strategy. This can be explained by the fact that there is a cost attached to differentiating products and services that the SMEs may not quite afford and also by the limited awareness and understanding about this strategy ad how to fully optimize the benefits accruing to its application. The study findings are in support of Aliqa (2012) whose findings indicated existence of a strong positive relationship between differentiation strategy and firm performance

Cost Leadership and Organization Performance

The study also revealed that respondents, who are the owners of SMEs in Kiambu County have embraced cost leadership strategy ad are using it to compete favorably. This is depicted with regards to charging lower prices than their competitors as well as reduction of labor input by automation/improved technology with means of 3.53 and 3.44 respectively under the cost leadership strategy. They were neutral about seriously pursuing cost reduction at a mean of 3.28 claiming that this can only be done to a certain point beyond which incurring losses would be inevitable. They were also neutral or moderately agreed as to whether they source supplies from suppliers who offer discounts, ad access to cheaper raw materials at a mean of 3.03 ad 3.00, claiming that they dint pay so much attention to this because at the end of the day it's the customers preference being met. Considerably the study findings confirms the findings of Birjandi, Jahromi, and Darabi (2014) who investigated the effect of cost leadership strategy on ROA and future performance of accepted companies in Tehran Stock Exchange (TSE). A purposive sampling dataset of 45 companies listed TSE in the period 2009-2013 was used. Cost leadership strategies were assessed by the ratio of sales to total assets, sales to capital expenditure and salaries to total assets. The results revealed the presence of a positive and significant connection between the two variables that is cost leadership strategy and firm performance.

Focus Strategy and Firm Performance

From the table above proprietors were neutral as to whether they target a specific market and serve a specific geographical market at a mean of 2.99 and 3.22 respectively. They also moderately agreed to offer tailored products/services to meet customer demands and improvement on products/service rage to cater for diverse clits with means of 3.0 and 3.12 respectively. The respondents agreed that they target a broad range price segments, at a mean of 3.40. Generally it can be observed that the focus strategy is applied but not extensively. Executing it with a combination of cost leadership or differentiation strategy would be recommended to fully realize its benefits. Fundamentally the findings of the study agree with Powers and Hahn (2003) who undertook to investigate the critical competitive strategies used by commercial banks to enhance their performance. They concluded that there existed a strong relationship between focus strategy attributes and firm performance.

Conclusion

The study found that SMEs in Kiambu County pursue Porters generic strategies as identified by Porter (1980) and the competitive practices conforming to the generic strategy types. This is I support of earlier findings by Allen et al (2006), Thompson et al. (2008) and Datta (2009) who contend that Porters Generic strategies can be linked to firm performance through the utilization of key strategic practices. Similarly, from the data analysis and interpretation, the researcher found a positive relationship between Porters generic strategies and performance of the SMEs in Kiambu County. The researcher concludes that generic strategies have a strong positive predictive effect on performance of SMEs; with differentiation having the strongest effect. Consequently, differentiation strategy can help a SMEs realize the most statistically significant superior performance when compared to differentiation or focus strategies. The study also revealed and matched key competitive practices that define each generic strategy better and identified the competitive practices strongly associated with performance for each of the generic strategy. From the analysis, the study concludes that it is possible for a SMEs in Kiambu County to pursue competitive practices associated with specific generic strategy and realize superior performance, by pursuing competitive practices with the highest mean. These findings are in support of much of the popular literature and discussions on the effects of Porters generic strategies on optimal performance of organizations (Allen et al., 2006)

Recommendations

The study findings revealed that the generic strategies had a positive effect of the organization performance, differentiation strategy having the greatest effect. However it was uncovered that some of the strategic competitive practices under each of the strategy were not widely applied since the respondents answered moderately to them. This could be as a result of lack of awareness and understanding concerning the specific competitive practices. This study recommends that the government organizes forums aimed at educating SME owners of a variety of strategic responses they can employ to remain aloft in the prevailing market

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