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Competitive Strategies and the Non Financial Performance of Micro Enterprises in Kenya

(A Survey of Industrial Knitting Micro Enterprises in Kiambu County)

[1]Daniel Kitonga Kimatu, [2]Dr. Okibo Walter Bichanga

[1]Scholar, Jomo Kenyatta University of Agriculture and Technology, Nairobi, Kenya
[2]Senior Lecturer, Jomo Kenyatta University of Agriculture and Technology, Nairobi, Kenya

Abstract: **Micro Enterprises (MEs) play an important role in the Kenyan economy mainly through its contribution to the country's GDP and employment. Despite their role, research has shown that MEs face a range of problems leading to their high mortality rate. In spite of continued efforts by donor communities, private sector organizations and the government of Kenya to offer support to MEs; the effect has been negligible. Competition has been identified as one of major causes of MEs' failure. This study aimed at establishing the role of Competitive Strategies on the financial performance of MEs in Kenya; with a focus on Industrial Knitting Micro Enterprises (IKMEs) in Kiambu County. The study was based on the Porter's Generic Competitive Strategy Matrix: Cost Leadership, Differentiation and Focus. Scholars have posited that there is limited research about the micro enterprise sector in Kenya and other developing countries. Little has been studied on the influence of competitive strategies on the non financial performance of MEs in Kenya. This study adopted a survey research design. The target population was 90 IKMEs operating in Kiambu County; and was stratified into homogeneous categories as formal and informal. A sample of 40 IKMEs was drawn proportionately and randomly from the strata. Business owner-managers were the respondents. Data collection method was both qualitative and quantitative aided by Questionnaires as data collection tools. Analysis was by descriptive statistics and used relevant computer packages. Results were presented in both tabular and graphic formats. Results of this study indicate that competitive strategies directly and significantly affect non-financial performance of IKMEs. The Owner-managers pursued focus strategy as their competitive strategy. The IKMEs should maximize their sales during peak periods and intensively employ competitive strategies during off peak periods. The government and other private training organizations need to focus more on competitive strategy training needs among SMEs and set relevant legal framework to level the field.**

Keywords: **Competitive Strategies; Non-Financial Performance; Micro and Small Enterprises; Industrial Knitting Micro Enterprises.**

1. INTRODUCTION

1.1 Background

Strategies are developed by firms to enable them seize strategic initiatives and maintain a competitive edge in the market (Porter, 1985). The competitive strategy of a firm determines its performance (Grant, 1991; Mahoney & Pandian, 1992) Knowing what customers want and how the firm survives competition are prerequisite for firm success (Joffre, 2011; Grant, 2003). Generally, SMEs are defined by the number of workers employed, value of assets and sales turnover (Garikai, 2011; OECD, 2004). According to Amyx (2005), self employment is identified with one employee, micro business is identified with two to nine employees, small business resonates with ten to forty nine employees, and medium sized business has fifty to two hundred and forty five employees. According to ministry of labor in Kenya, a micro enterprise has 0 to 9 employees; small enterprise has 10 to 49 employees medium enterprise has 50 to 99 employees; large enterprises have 100 or more employees. According to Mensah (2004), Micro Small and Medium Enterprises (MSMEs) are dominated by one person, with the owner/manager taking all major decisions. In this study, Small and Micro Enterprise is defined as an outfit which is run by the sole proprietor and has zero to ten employees (Mwangi, 2011). MSMEs tend to be large in number, accounting for about 90 percent of all enterprises in many African countries and over 80 percent of new jobs in a given country (Reinecke 2002).With their large number comes increased competition, and continuous technological break throughs and rapidly changing customer requirements demand strong market orientation if MSMEs are to be successful (Shiu & Walker 2007). Owing to globalization, MSMEs are forced to adopt competitive strategies in order to be relevant in the environment. Micro Small and Medium Enterprises (MSMEs) form more than 99% of all enterprises in the world (Capital Markets Authority, 2010). The global economy heavily depends on success of the MSME sector (Siekei, 2013). Economic survey (2012) indicates that the informal sector which comprises of the SMEs has contributed 80.8% of total employment created (KNBS, 2012). SMEs play an important role in the economies of developed countries; representing 99.8% of total number of European firms, and 66.5% of all European jobs in 2012(European Commission, 2013) and delivering 57.6% of Gross Value Added generated by the private, non financial economy in Europe (Eurostat, 2012). Kenya's private sector consists of mostly informal micro enterprises, operating alongside large firms (Carrier, 1999). The small and micro enterprises (SMEs) play an important role in the Kenyan Economy. The 2009 National Census Survey of Kenya revealed that 64% of its population was engaged in small and micro enterprises (KNBS, 2010). SMEs comprise about 75% of all businesses, employs 4. 6 Million People (30%), accounts for 87% of new jobs created and contribute 18.4% of the GDP, (GOK, 2009). According to the Economic Survey (Republic of Kenya, Economic Survey, 2012); Kenya's SME sector contributed 79.8% of new jobs created in the year 2011; showing an increase of 5.1 percent.

Clothing and textiles is one of the major MSE activities with potential for the country's industrialization and poverty reduction (Ouma, 2002; Mc Cormick et al 2002). It is one of the major sources of employment, providing up to 26% of manufacturing employment and characterized by a high proportion of small scale activities (Aguilar and Bigsten 2002). Many MSEs in the clothing and textiles sector are owned by Kenyans of African origin, but the share of African owned enterprises falls sharply when moving up the enterprise size scale as many Asians own medium and large scale firms (Atieno, 2009). Despite the role played by SMEs, research has shown that these SMEs face a range of problems with 40% of them closing within one year; 80% of them closing within five years and 96% of them being out of business by their tenth year (Gerber, 2001). According to the sessional paper No.2 (Republic of Kenya, Economic Survey, 2005); SMEs have high mortality rates with most of them not surviving to see beyond their third anniversaries. Three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007; Bowen, et al, 2009). Bowen et al, (2009) posited that there is limited research and scholarly studies about the SME sector in Kenya and in other developing countries; with the 1999 National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings providing the most recent comprehensive picture of SMEs in Kenya. National MSE Baseline Survey 1999; Bowen et al (2009) and Taylor (2012); identified competition as major causes of MSEs failure. Kenyan government considers the sector the centre of industrial development and has hinged several development strategies on it (GOK, 2007).

The economic pillar of Kenya's Vision 2030 identifies SME development as a key strategy to propelling the country to a middle income economy by the year 2030 through equity and poverty elimination to reduce the number of people living in absolute poverty to the tiniest proportion of the total population. The Industrial Knitting Micro Enterprises (IKMEs) form part of clothing and textiles industry in Kenya. The IKMEs emerged in early 2000s and are mainly owned by the native Kenyans who initially worked in the Asian owned medium and large textile firms in Kenya. Like other MSE activities in the country however, these IKMEs continue to face similar constraints which limit the realization of their potential as sources of growth and employment. This raises the issue of how to enhance their performance and the exploitation of the sector's potential in providing employment and incomes. This study examines competitive strategies and the performance of Micro Enterprises (MEs) in Kenya with a focus on Industrial Knitting Micro Enterprises (IKMEs) in Kiambu County.

1.2 Statement of the Problem

Micro Enterprises (MEs) play an important role in the Kenyan economy mainly through its contribution to the country's GDP and employment. Kenyan Small and Micro Enterprises (SMEs) contributed 70% of the Gross Domestic Product (GDP) and created 79.8% of new jobs in the year 2011; with Nairobi County recording a 5.4% increase in job creation compared to the previous year. Despite their role, research has shown that these SMEs face a range of problems with three out of five SMEs failing within months of establishment; and 96% of them being out of business by their tenth year. In spite of continued efforts by donor communities, private sector organizations and the government of Kenya (as envisaged in the Vision 2030) to offer support to SMEs; the effect is negligible. Competition has been identified as one of major causes of SMEs' failure. Owing to globalization of whose outcomes are privatization and deregulation of markets, aggressive competition plays a pivotal role to the survival of SMEs. Most studies conducted dwelt on challenges faced by the MSMEs in Kenya.

Pearce and Robinson (2011) argued that entrepreneurs launch businesses destined for failure due to lack of sustainable, workable strategy that sets them apart from competition. Bowen et al (2009) and Taylor (2012) identified competition as a major cause of MSEs failure. Bowen stated that they counter competition by good customer services, discount offers and selling cheaper than competitors. These researchers however shed little light on the effect of these counter measures. There exists a knowledge gap on competitive strategies among MSMEs. This gap is very crucial for MSMEs starting or wishing to expand. Hardly any study has focused on the critical Competitive Strategies affecting the performance of Micro Enterprises (MEs) in Kenya. Little is known about the relationship between Competitive Strategies and business performance of Industrial Knitting Micro Enterprises (IKMEs) in Kenya. This study therefore sought to highlight critical Competitive Strategies influencing non financial performance of Industrial Knitting Micro Enterprises in Kiambu County.

1.3 Objectives of the Study

The objectives of the study were subdivided into general objective and specific objectives. The general objective states the theme of the study while the specific objectives explain the main contents of the theme.

1.3.1 General Objective of the Study

The general objective of this study was to examine Competitive Strategies and non financial performance of Micro Enterprises Kenya. .

1.3.2 Specific Objectives of the Study

The specific objectives of this study are:

i. To establish the influence of cost leadership strategy on non financial performance of micro enterprises.

ii. To determine how differentiation strategy relates to non financial performance of micro enterprises.

iii. To examine focus strategy and the non financial performance micro enterprises.

1.4 Research Questions

The study sought to answer the following questions:

i. How does cost leadership strategy influence non financial performance of micro enterprises?

ii. What is the relationship between differentiation strategy and non financial performance of micro enterprises?

iii. What is the influence of focus strategy on non financial performance of micro enterprises?

1.5 Justification of the Study

This study will help to establish the effect of competitive strategies on non financial performance of MSMEs in Kenya. This will contribute to a greater understanding of various competitive strategies MSMEs in Kenya apply in trying to attain sustainable growth. The research will also make the MSMEs more knowledgeable on the wide range of strategies to apply in order to fit in the prevailing environment. To the researchers and academicians, this study will provide a base for secondary material on competitive strategies among micro enterprises Kenya. The research will form a base for further studies on competitive strategies among micro enterprises in Kenya and the results used to sensitize the government in formulating regulative solutions that would protect and address the plight of MSMEs in Kenya. The study will go a long way in helping the government and other private training organizations in designing a training program that is relevant to the MSMEs in Kenya.

1.6 Significance of the Study

SMEs should adopt competitive strategies if they have to survive. They should seek knowledge from many sources available otherwise their mortality rate will continue to be high. Training organizations' programs should be geared towards addressing the plight of SMEs.

1.7 Scope of the Study

The study aims at exploring the competitive strategies and their influence on non financial performance of Micro Enterprises in Kenya with a focus to the Industrial Knitting Micro Enterprises in Kiambu County. Both formal and informal Industrial Knitting Micro Enterprises were considered in the study. The study used a descriptive research design. Both qualitative and quantitative data was obtained from the respondents using questionnaires. The respondents were the business owner-managers. The study examined the influence of cost leadership, differentiation and focus strategies on non financial performance of IKMEs in Kiambu County.

1.8 Limitations of the Study

Some of the respondents were unwilling to be interviewed or to give confidential information. This required tact in handling the respondents. Assurance of confidentiality was given. Most respondents claimed that they were too busy hence prompting the researcher to visit and encourage them to fill the questionnaires. Pretesting was done to identify and correct contentious areas in the questionnaire hence avoiding 'unfilled' questionnaires. The questionnaire was framed in a systematic and precise way to encourage the respondents to fill.

2. LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature that is relevant to the objectives of the study. This literature review builds on existing findings on competitive strategies and non financial performance of Micro enterprises. The goal of this chapter is to summarize researches on competitive strategies influencing performance of MEs, and to view it through Porter's Generic Competitive Strategies, Treacy and Wiersema's Value Discipline, Strategic Groups Theory and Resource Based Value Theory. Theoretical literature review of Michael Porter's Generic competitive strategies forms the basis of this study. Non Financial performance indicators were also analyzed. The literature review was divided into five sections. The first section included overview of literature on theories in competitive strategy fields. The second section constructed the conceptual framework of the study based on explored theoretical framework while the third section operationalized the conceptual frame work. Section four investigated the empirical findings of different studies; then finally the Research Gap was identified and discussed.

2.2 Theoretical Review

Competitive strategy is about being different; deliberately choosing to perform activities differently or to perform different activities than rivals to deliver a unique mix of value (Porter, 1980). The 3Cs strategic triangle model identifies competition as one of the 3 key factors for success of a firm (Joffre, 2011; Grant, 2008; Ohmae, 1982). Gakure and Amurle (2013) construed that the ability to understand customer needs and competitors' moves, strengths and weaknesses provide small firms with strategic information vital for their success. The two researchers also inferred that the firms which undertake continuous search for market information are more likely to have good understanding of their immediate external environment, which mainly constitutes the customer and the competitor. Making competitive advantages the cornerstone of your marketing strategy; and communicating these advantages clearly to your customers in your promotional tactics is vital (Kiveu and Ofafa, 2013). Market orientation theory holds that the key to achieving organizational goals is being more effective than competitors in integrating marketing activities to determine the needs of target markets (Kotler 1999). Kotler noted that firms with better understanding of their customers, competitors and environment have a competitive edge.

2.2.1 Competitive Strategy

Competitive strategy means being different; deliberately choosing to perform activities differently or to perform different activities than rivals to deliver a unique mix of value (Porter, 1980). Business strategy is also known as competitive strategy (Hunsah, 2013). It focuses on improving competitive position of products and services in a particular industry or market segment served (Wheelen, 2001). Business strategy addresses how a company and its units can compete in business and industry.

2.2.2 Porter's Generic Competitive Strategies

Michael Porter's theory of Generic Competitive Strategy is one of the most remarkable and influential contributions to the study of strategic behavior in organizations (Porter, 1980, 1985). Later on this theory was seen as dominant paradigm of competitive strategy (Hill, 1988; Murray, 1988). Porter argued that every firm must choose between a cost leadership and a differentiation strategy. Porter's generic strategy matrix, which highlights cost leadership, differentiation and focus as the three basic choices for firms, has dominated corporate competitive strategy for the last 30 years (M. Pretorius, 2008). According to this model, a company can choose how it wants to compete, based on the match between its type of competitive advantage and the market target pursued, as the key determinants of choice (Akan *et al.*, 2006). Porter's (M. Porter, 1980); (M.E. Porter, 1985) generic strategy typology remains one of the most notable in the strategic management literature (J.A. Parnell, 2006). Porter argued that it is not normally possible for firms to follow both simultaneously and still be successful. However, Porter recognized some temporary exceptions to his main thesis: if the competitors themselves are stuck in the middle; when a company has captured large economies of scale or economies of scope and when a firm is the first in the market with a major (technological innovation) that simultaneously reduces costs and enhances differentiation.

Despite widespread interest and application, it has proofed difficult to progress its representation of competitive behavior. According to Hunt, (2000) "the paradigm has so far failed to open up a period of Kuhnian 'normal science' in which a detailed and immensely productive dialogue is established between fact and theory". Hunt further argues that, "Failure to establish this dialogue threatens to leave the study of competitive strategy in a pre paradigm state...." since so far no sufficient empirical or social support "....to make the phase transition to normal science". The major impediment is that "no known way to compare or cumulate individual empirical studies of the type suggested by the paradigm". A meta-analytic procedure is proposed by Hunt where the empirical record can be aggregated (p.132-136). According to Hunt, "Results suggest that, although cost and differentiation act as high level discriminators of competitive strategy designs, the paradigm's descriptions of competitive strategy should be enhanced, and that its theoretical proposition on the performance of designs has yet to be supported". The paradigm's theoretical propositions have attracted intense debate. Christer Oskarsson and Niklas Sjoberg (1994) studied on 'Technology Analysis and Competitive Strategy: The Case of Mobile Telephones'. They examined the validity of the strategic implications drawn from the typology of Michael Porter's generic strategies. They stated that, "It is argued that the existence of technologies which simultaneously drive cost and performance make it possible to combine cost leadership and differentiation strategies, and yet be extremely competitive. The mobile telephone industry provides us with an illustrative empirical example. In this case, rather than a 'stuck in the middle' strategy, we found a 'luck in the middle' strategy". The 'stuck –in-the-middle' hypothesis (Kamani, 1984; Murray, 1988; Hill, 1988) argued that external conditions provide no reason to discriminate against mixed cost and differentiation strategy designs.

Attempts by Miller (1986), and Mintzberg (1988) to widen the set of strategic competitive behaviors that are held to be generic have met little success, despite recent empirical evidence which suggests that they offer a superior description of competitive behavior (Kotha and Vadlamani, 1995). Porter's strategy typology is considered as a conceptual bridge between the I/O and resource-based approaches (Parnell and Hershey, 2005). Bowman, (2008) states that though Porter's thinking still dominates much of the strategy field, its apparent simplicity masks a number of problems. The most significant are: firstly the theory confuses 'where to compete' with 'how to compete'; secondly the theory confuses competitive strategy with corporate strategy; and thirdly, it excludes other feasible strategy options. Trade-off studies examine the need for plants to prioritize their strategic objectives and devote resources to improving those manufacturing capabilities. For example, researchers frequently claim that plants must make choices between achieving low costs or high flexibility (e.g., Hayes and Wheelwright 1984; Garvin 1993; Hill 1994). Low cost producers seek to reduce waste and improve productivity, often designing efficient line flow systems comprised of relatively fixed machinery and standardized operator tasks. In contrast, highly flexible plants may choose a job shop design, seeking rapid response to changing customer demands and product specifications. Ward, McCreery, Ritzman, and Sharma (1998) recently found support for this claim, linking 'line flow and job shop manufacturing processes to cost and flexibility priorities', respectively.

2.2.3 Treacy and Wiersema's Value Discipline

According to Bowman, 2008; there are clear parallels between Porter's and this theory though Treacy and wiersema's theory takes an empirical approach. The basis of this theory lies in the identification of the three generic segments: firstly 'operational excellence' which advocates for a standard product with a keen price. The second segment 'product leader' "demands the very latest innovations and product features, and may be prepared to pay a price premium to get them". "And the third generic segment 'customer intimacy' values a bespoke product or service, tailored to meet their particular needs". They are careful to point out that theirs is a theory of business-level strategy not corporate strategy, so they recognize that within a corporate structure business units could be pursuing different value disciplines. They also emphasize that firms cannot ignore the other non-chosen disciplines; they have to be averagely good at these, but need to excel in one discipline. 'Operational excellence' is very similar to Porter's low cost strategy, but at least with Treacy and Wiersema we are clear that the strategy is targeted at a particular type of segment. 'Product leadership' is a strategy of differentiation through innovation, and 'customer intimacy' is a strategy of differentiation through bespoke service.

2.2.4 Strategic Groups Theory

This theory basically argues that "within an industry, firms with similar asset configurations will pursue similar competitive strategies with similar performance results" (Pollock and Thomas, 1999). Pollock and Thomas further argue that though performance within a strategic group is expected to be similar, different strategic groups are expected to experience different levels of performance. The origins of research on the strategic groups can be found in the I-O

Economics literature. Michael Porter also attempted to use the same general principles and apply a modified version of the structure-conduct-performance(S-C-P) paradigm of I-O economics to the study of strategic groups. The S-C-P paradigm suggests that "the structure of the industry influences strategic behaviors of firms, which in turn influences their performance" (Thomas and Pollock, 1999). The 'strategic groups' perspective turned the S-C-P paradigm on its head, and argued that the strategic behaviors of firms influence both the structure of the industry (the formation of strategic groups) and the performance of the industry.

2.2.5 Resource Based Value (RBV) Theory

This theory suggests that resources and capabilities are basis to create a strategy (Husnah, 2013). Villalonga (2002) asserted that RBV predicts that firms with many intangible resources will have greater Sustainable Competitive Advantage (SCA). RBV, by looking at the relationship of "business strategy performance", refers to Porter's generic strategies (Panrell, 2006). RBV is commonly used to analyze the relationship of a firm's resources and its performance. According to RBV perspective, the difference in performance is caused mainly by unique resources and company capabilities, not because of industrial structure characteristics (Barney, 1991). RBV states that a company will get a big advantage when running a strategy that is not employed by any competitor. When other companies are unable to duplicate a particular strategy, the company has run sustainable competitive advantage. However, to get value, a resource should be rare, difficult to imitate and can not find easy replacement (Husnah, 2013). Competitive strategy of a firm determines its performance (Grant, 1991; Mahoney & Pandian, 1992).

2.3 Conceptual Framework

The conceptual frame work for this study is based on Porter's Generic Competitive Strategies.

This study was motivated to ascertain the competitive strategies affecting non financial performance of IKMEs. The independent variables in this study were Cost Leadership Strategy, Differentiation Strategy and Focus Strategy while the non financial performance is the dependent variable. Figure 2.3.1 below shows the conceptual framework.

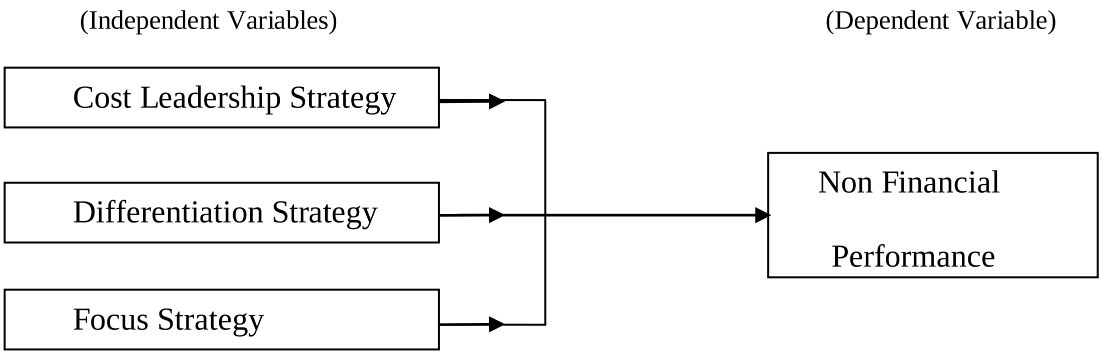

Fig. 2.3.1 Conceptual Framework

2.4 Operational Framework

An organization performance is partly determined by how effectively and efficiently its business strategy is implemented (Oslon, Slater and Hult, 2005). Biggeri et al. 1999, notes that small and micro enterprises do not enjoy economies of scale, however, they have the advantage of quickly adjusting to competitive pricing and have a high speed of adoption to innovation. Biggeri further notes that this enables them operate profitably alongside multinationals. According to Mwangi (2011), "Not all the small and micro enterprises are able to adapt to external changes. Those that do not adopt fast enough to a fast-paced economic environment quickly become unprofitable and fall out of business." Where competition is very stiff and rate of imitation is very high, commitment to customer value- focused innovation is vital to sustain competitive advantage (Dickson, 1992; Ghemawat, 1986; Jacobson, 1992). Slater and Narver (1995) suggest that this can be achieved through developing new products or reformulating existing ones, creating new manufacturing methods or distribution channels or discovering new approaches to management or competitive strategy. According to Cravens and Shipp (1991), firm's environment is increasingly turbulent, complex and competitive and the market place is dynamic due to demographic and socio economic shifts.

Customers want quality and service at lower costs. According to Day, 1994a, 1994b; Glazer 1991; Slater and Narver, 1995, ICT has increased in importance as a source of competitive advantage. Slater, 1997 states that "superior performance is a result of providing superior customer value; it's not an end in itself." Resource based view allows the possibility of superior performance by a firm based on specific combination of resources that is valuable, rare and difficult to imitate (Barney, 1991). Lewis and Boyer, 2002 argues that Low cost producers comprised of relatively fixed machinery and standardized operator tasks. Figure 2.4.1 shows the operational framework. The non financial performance was measured by growth in: employees, markets and assets. Competitive strategy factors/ items were as shown in figure 2.4.1 below.

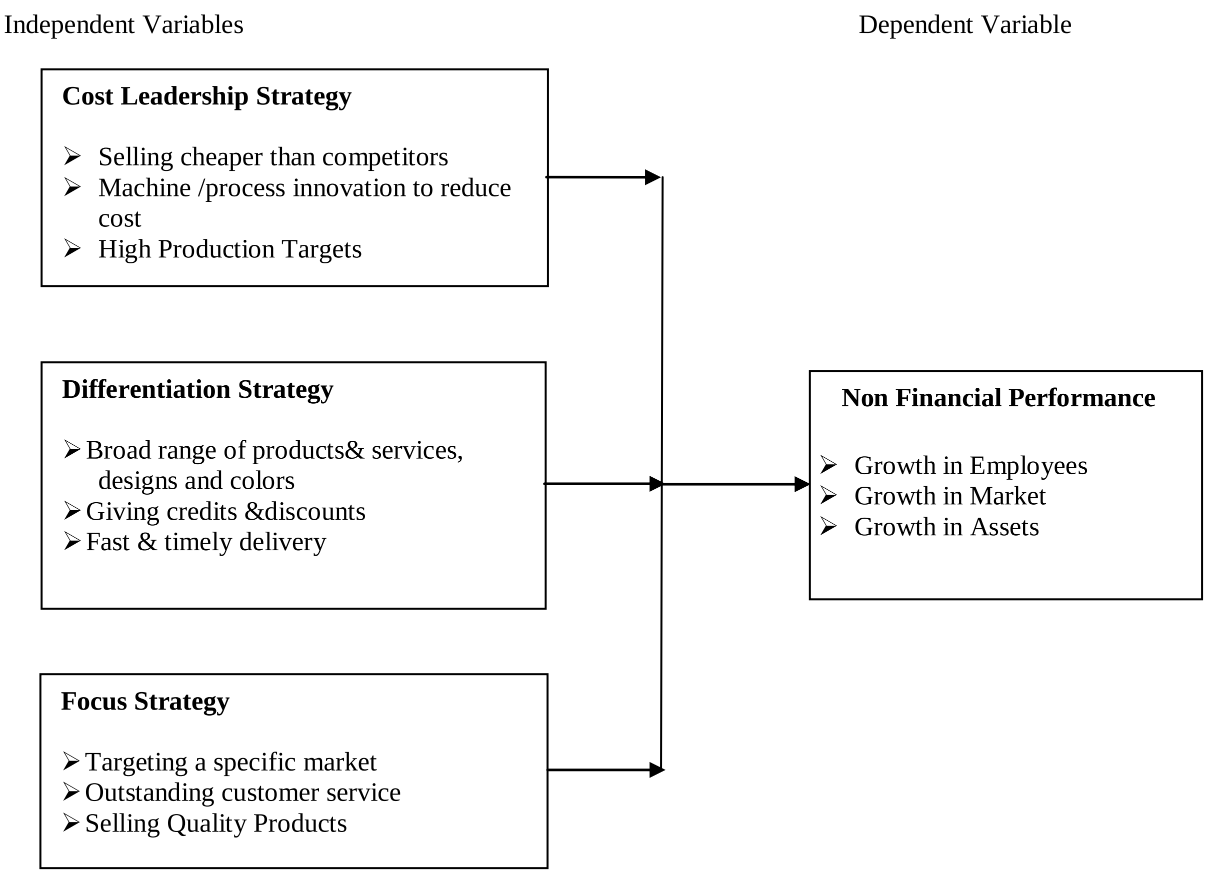

Fig. 2.4.1 Operational Framework

2.5 Empirical Review

This section reviewed the extant empirical literature on competitive strategies and the non financial performance of micro enterprises.

2.5.1 Non Financial Performance of MEs

According to Chong (2008); various theoretical frameworks exist to evaluate ‘performance and effectiveness,’ which can be achieved through four approaches: the goal approach, system resource approach, stakeholder approach and competitive value approach. Oslon, Slater and Hult, (2005) state that business performance is presented in terms of growth in market share, among others. Growth in number of employees is most commonly used measure of success for small firms (Mead and Liedholm, 1998; Bigsten and Gebreeyesus, 2007). In cases where there is no panel data, firms answer a retrospective question about past and present size of employment, to compute growth. According to these researchers’ perception, a firm is successful if it increases in size (measured by number of employees). The implicit assumption is that growth in employment size is associated with higher profits (McPherson, 1996). The main justification for relying on employment growth as an indicator of success is that use of other dimensions of success indicators will become more complicated when, for example, firms do not keep complete books of records.

Employment growth is a conservative measure of firm success because a firm usually employs more labour long after it has realized profit (Parker, 1994). Garoma (2012) argues that owing to its objectivity and ease of obtaining data, many researchers study success using employment growth. Van Dijk (2005) asserted that one of three indicators of small and microenterprise success in Africa is number of employees. Van Dijk (2005) mentions the difficulty of measuring profit by small enterprise owners on several grounds. He argues that, as these businesses do not keep complete books of accounts, they might not figure out the true financial values. Moreover, income from the business supports household consumption thereby complicating computation of revenues and costs accruing to the business. Perceptual performance is captured in a five-point Likert scale. Perceptual performance measures are preferred since financial data on almost all MSMEs won't be publicly available. The Likert scale is also preferred since it is able to deal with a large number of items and difficulties in eliciting specific information from the respondents (Singh & Smith, 2006).

Werner felt, (1984) argued that resources and strategies is a key element for management decisions to determine the long term company performance. Company's strategy is an important part of company's organizational system, which will play an important role in improving business performance (Slater *et al.,* 2006). As noted by Yamin *et al*., (1999) and Finney *et al*., (2007), much research supports the direct influence of the Porter's Competitive Strategy on financial performance. Nahkata, (2007) found a positive relationship between human capital and financial performance. The innovation activities trend (human capital) is positively related to performance (Husnah *et al*., 2013). Human resources in terms of formal education and knowledge skills affects business management. Results by Amoako-Gyampah *et al*.,(2008) and Kong *et al*., (2009) suggest that human capital had no effect (low influence) on performance when not mediated by Porter's competitive strategy.

2.5.1.1 Success Defined by Own Perception

Garoma (2012) stated: "The contention that success is a subjective concept and better be explained by respondents. Berner et al.,(2008); Abban (2009) and World Bank (2007) advocate that understanding how people perceive their jobs is an equally important indicator of success as objective measures. According to Garoma (2012); objective responses (such as profits, employment, assets and sales growth) were checked against the subjective responses given by the

Table 2.5.1.1 Differences between Subjective and Objective Measures in Business Performance

Differentiation Aspect	Subjective Measures	Objective Measures
• Indicators	• Focus on overall performance.	• Focus on actual financial indicators.
• Measurement Standard	• Key informant are asked to rate the performance relative to their competitors (and/or industry).	• Key informants should provide absolute financial data.
• Scale Anchors	• Scales range from "very poor" to "Very good" or "much lower" to "much higher" or "worst industry" to "best industry".	• Scales are not used.

Source: Adapted from Dawes (1999), Wall et al., (2004) and Kim (2006b).

owner managers. A five scale measure on 'How satisfied you are in your life?'is cross checked with growth rates of our objective financial performance indicators. The scale range from one to five, where 5 stands for very satisfied, 4 stands satisfied, 3 stands for neither, 2 stands for dissatisfied and 1 stands for very dissatisfied. A correlation test was performed between each of the objective indicators and the scaled subjective response on satisfaction. The correlation analysis revealed that satisfaction varies directly with objective indicators of success and this is significant at the (p = 0.01) level of significance. From the correlation it can be deduced that there is a tendency that enterprises with growth rates in employment, profit and turnover perceive themselves as successful based on their own definition of success.

Many studies show a preference for subjective measures during the assessment of business performance due to difficulties in obtaining objective financial data (Zulkiffli *et al*., 2011). Managers often refuse to provide accurate, objective performance data to researchers. Even if objective data is availed, the data often do not fully represent firm's actual performance, as managers may manipulate the data to avoid personal or corporate taxes (Dess & Robinson ,1984; Sapienza et al., 1988). Subjective measures can be an effective way to examine business performance. Managers often are encouraged to evaluate business performance through general subjective measures that can reflect more specific objective measures (Wall *et al*., 2004). Many managers prefer to provide performance measurement data subjectively to protect confidentiality (Song *et al*., 2005).

2.5.1.2 Validity of Subjective Performance Measures

Subjective measurements are strongly correlated with objectives measurements (Dess and Robinson, 1984). Three validity tests have-convergent, divergent and construct - been used to show that subjective measurement is significantly reliable as an alternative to objective measurement in business performance.

Table 2.5.1.2 Results of Different Validity Tests to Measure Business Performance

Validity Type	Results
Convergent	• Subjective performance measures are related to objective measures
Discriminant	• Relationships between subjective and objective measures are systematically stronger than relationships between different performance constructs measured using the same method (either subjective or objective).
Construct	• Relationships between subjective and objective performance measures with a series of independent variables are equivalent. • Subjective performance measurement has a statistically significant correlation with objective measurement ($p < 0.01$). • Subjective measurement shows a 95% success rate as compared with objective measurement.

Source: Adapted from Wall et al., (2004)

2.5.2 Competitive Strategies

Denis (1990) identified sixteen competitive factors that small firms use. Six of them relate to product strategy (adaptation, scope of product line, exclusivity, technological intensity, maturity, and size of orders); five to distribution strategy (similarity and number of models, intensity of contacts, and marketing coordination with intermediaries); three to price strategy (differentiation, lower export price, pricing according to local situation); and the last two factors relate to promotion strategy (scope of promotional efforts and participation in trade fairs).

Guthrie *et al.,* (2002) did a study on 'Correlates and consequences of high involvement work practices: the role of competitive strategy'. This study finds that "whereas more intensive use of high involvement work practices promotes firm effectiveness, this effect depends on the competitive strategy being pursued. The use of high involvement work practices is positively associated with performance in firms competing on the basis of differentiation and shows no relationship in firms pursuing a strategy of cost leadership". Bowen *et al.,* (2009) did a study on Management of Business Challenges among Small and Micro Enterprises in Nairobi, Kenya. In their study, 89.4 percent of the respondents cited 'increased competition' as the most pressing challenge affecting small and micro enterprises in Nairobi. The researchers further found that: "When asked how they counter their competitors, 30.2 percent of the respondents mentioned good customer service followed by discount offers (which vary according to client), which was mentioned by 18.3 percent as the remedy. 7.9 percent of the respondents reported that they use price as a competitive edge by selling cheaper than their competitors.

Selling a variety of products was mentioned by only 6.3 percent of the respondents. Offering credit facilities, selling of quality goods and services and offering customers additional services like free training were mentioned by 5.6 percent, 4 percent and 3.2 percent of the respondents respectively".

Sessional Paper no. 2 of 2005 on Development of SMEs for Wealth and Employment Creation for Poverty Reduction has recognized the marketing constraints faced by the sector as: lack of access to information on the existing market opportunities and in exports, poor quality products and poor product design and differentiation, and lack of promotional activities, both locally and internationally. Markets do not function well due to insufficient information, high transaction costs and stiff competition for similar products (Kiveu & Ofafa, 2013). Information and Communication Technology (ICT) provides opportunities for SMEs to improve market access. Market access constraints include: poor quality products, lack of knowledge to explore niche markets, limited resources to promote their products and poor market research. ICT can improve market access by facilitating communication with customers, competitive positioning, enable information acquisition and production of quality products, generation of market information, reduction in logistic costs ,facilitating access to global markets ,facilitating market research, networking, market transactions and market identification (GOK, 2007).

Competitiveness of SSEs remains weak due to poor product quality, packaging, advertizing and distribution (GO K, 2005). Bakar *et al.*, (2011) in their study on Entrepreneurial Challenges Confronting Micro Enterprise of Malaysian Malays revealed that the existing micro enterprise owners (MEOs) had strong motivations and better marketing approaches as compared to failed micro enterprise owners (FMEOs). The FMEOs failed in the business ventures mainly due to lack of management, sales and marketing skills and poor competitive abilities to keep up with rivals. Simeyo *et al.*, (2011) established that training in microenterprise investment had a significant positive impact on the performance of the micro enterprises with a standardized beta coefficient of 0.281 which indicated that a unit increase in the provision of training to SSEs resulted to a 28.1% increase in performance. Nyabwanga (2011) in his study on effect of capital management practices on financial performance of SSEs in Kisii south district established that majority of the small business owners or managers had just basic education and over 57% of them hardly attend any business training programs despite the establishment that over 60% of them had little or no knowledge in business management hence were void of management skills vital in the running of their enterprise.

Aczel (2000) in his study on the role of microfinance in supporting microenterprise in Thailand indicated that the involvement of micro financial institutions in promotion of microenterprise and processing industry through provision of information, knowledge, skills and linking the entrepreneurs to information service providers plays a key role in economies of developed countries as a source of goods and services and their overall performance. Kiraka *et al.*, (2013); studied on Micro, Small and Medium Enterprise Growth and Innovation in Kenya: A Case Study on the Women Enterprise Fund. They found that locating an enterprise in an urban area increased the likelihood that the business would decline in its gross profit. Urban decline on profit was partly attributed to heightened competition among low-end enterprises which characterize most women owned ventures in urban slums and informal settlements. According to Kiraka (2013) these MSMEs faced challenges including limited and shrinking markets/competition, lack of business knowledge, low literacy levels among others.

The study recommends that there should be enhanced and standardized training, development of legal framework for default recoveries, business incubators for start-ups, among others. Nganga, Onyango and Kerre, (2011) and Bowen, Morara and Mureithi, (2009) observed that from an entrepreneurial perspective, SMEs focus on fragmented or niche markets due to their ability to innovate. The study recommended that SMEs should take initiatives to adopt change in their attitudes and approaches towards vital issues such as risk appetite, saturation of existing markets, changing customer needs, resource constraints, lack of training, lack of specialist and technical knowledge, and rising costs to enable them develop business models that will earn them competitive advantage.

Husnah *et al*., (2013) did a study on 'Intangible Assets, Competitive Strategy and Financial Performance: Study of Rattan SMEs in Palu City of Central Sulawesi (Indonesia)'. They found that intangible assets (human capital, organizational capital and relational capital) can directly increase the accuracy of competitive strategy selection and competitive strategy directly affect financial performance. "It can be proved that integration model intangible assets increase financial performance maximally when mediated by a competitive strategy selection." (Husnah *et al*., (2013). They asserted that intangible assets are important investments since they are the basis for determining competitive strategy to achieve more optimal financial performance of the Rattan SMEs.

2.6 Research Gap

Bowen et al (2009) posited that there is limited research and scholarly studies about the SME sector in Kenya and in other developing countries. Despite the continued efforts by donor communities, private sector organizations and the government of Kenya to offer support to SMEs; still the effect seems to be negligible as inferred by the most recent researchers. Most studies conducted dwelt on challenges faced by the MSMEs in Kenya. Bowen et al (2009) and Taylor (2012) identified competition as major causes of MSEs' failure. However, they do not show the various strategies these MSMEs apply to compete among themselves and with other larger firms. These studies do not establish what competitive strategies are needed to be applied by the MSEs for them to remain afloat. Various studies have shown the need for entrepreneurial and non financial management skills among the MSMEs.

However, entrepreneurial is broad and there is need for specificity. There exists a knowledge gap on competitive strategies among MSMEs. This gap is very crucial for MSMEs starting or wishing to expand. Little is known about Competitive Strategies and non financial performance of Micro Enterprises (MEs) in Kenya. Specifically, hardly any study has established the influence of Competitive Strategies on non financial performance of Industrial Knitting Micro

Enterprises (IKMEs) in Kenya. This study therefore seeks to investigate critical Competitive Strategies influencing non financial performance of Industrial Knitting Micro Enterprises Kiambu County.

3. METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. This includes the study design, target population, sampling techniques, data collection tools to be used and data collection techniques, data analysis method and data presentation. This research methodology enabled the researcher to obtain and process the data.

3.2 Research Design

This study used a descriptive research design. A descriptive study attempts to describe or define a subject, often by creating a profile or a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction, (Cooper and Schindler, 2006). Descriptive design method provided quantitative data from the respondents. Both primary and secondary data were sought. The data collected answered questions concerning the current status of the subject under study. A structured questionnaire on a 5 point Likert type of scale was used.

3.3 Target Population

The target population of this study comprises of approximately 90 IKMEs operating in Kiambu County. According to Mugenda and Mugenda, (1999), target population in statistics is the specific population about which information is desired. A population is a well defined or set of people, service, elements, and events, group of things or households that are being investigated (Waweru, 2012). The total population of IKMEs in Kiambu County is 150; as shown in table 3.3.1 below:

Table 3.3.1 Target Population

Category	Population	Target Population	%
Formal	30	10	33
Informal	120	80	67
Total	150	90	60

3.4 Sample Size and Sampling Procedure

According to Gay (2003), sampling is a process in which a number of individuals are selected for a study in such a way that the larger group from which these individuals were selected is represented by them. Gay, (2003) stresses that samples should be as large as possible; the larger the sample, the more representative it was to the population. Minimum acceptable sampling sizes depend on the type of research, no defined minimum acceptable sampling sizes (Gay, 2003). Gay, (1983) suggests that for correlation research, 30 cases or more are required. According to Mugenda and Mugenda, (2003), a sample size of between 10% and 30% is a good representative of the target population. In this study, the sampling frame is the list of all IKMEs in Kiambu County. Simple random sampling technique was used to select 40 IKMEs as shown table 3.4.1 below. In this study, business owner-managers were the respondents.

Table 3.4.1 Sample Size

Category	Target population	Sample Size	%
Formal	10	4	40
Informal	80	36	45
Total	90	40	44

3.5 Data Collection Instruments

The study used a questionnaire as data collection tool. Interview Schedule was also used for more clarification and to give the true picture. Data collection was quantitative in nature. The interview mode of data collection is preferred due to its high response rate as compared to either mail or telephone interview. Further, the mode provides for clarification of questions.

3.6 Data Collection Procedures

Primary data was collected using a questionnaire and interview schedule administered on IKME manager-owners. The questionnaire had open ended questions, closed ended questions and Likert scales. An open ended question does not provide the respondent with a choice of answers. Instead, the respondent is free to answer the questions as he/ she chooses. The open ended questions are meant to avoid limiting the respondents in answering the questions. A closed-ended question provides the respondent with several answers to choose from.

3.7 Pilot Testing

The researcher carried out a pilot study to pretest and validate the questionnaire and the interview guide. Three informal and two formal IKME manager-owners were pilot tested and adjustments on the questionnaires and interview schedules made. Questionnaires are typically pre-tested by the enumerators who conduct the surveys so that they fully understand the guidelines that are supplied to them, and how to complete the questionnaires. Pilot testing provides the researcher with ideas, approaches, and clues you may not have fore seen before conducting the pilot study. A number of points are important during pilot testing: Firstly, administer the pilot in the same way and under similar conditions as you plan to do for actual data collection and record time taken to complete. Secondly, pay attention to instances when respondents hesitate to answer or ask for clarification making notes when it happens. Thirdly, after the respondent has finished ask how he understands each question and response choice. Go through the survey again and let the respondent tell you what he thinks is being asked. Fourthly, for questions with multiple response choices, ask if there are any other choices that should ne listed. Fifthly, look at cultural issues to see if any questions are not acceptable. Ask if the sequence of the questions either encouraged or discouraged their desire to continue with the survey.

Mugenda and Mugenda (1999) argue that the usual procedure in assessing content validity of a measure is to use a professional or expert in a particular field. To establish the validity of the research instruments, the researcher sought the opinion of experts in the field of the study especially the lecturers. This facilitated the necessary revision and modification of the research instruments thereby enhancing validity and reliability. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. Cronbach's alpha coefficient test was used to test the internal consistency reliability. It is specified that an instrument which scores around 0.60 is considered to have an average reliability standard; while a score of 0.70 and above indicates that the instrument possesses a high reliability standard (Hair *et al*., 1998; Nunally, 1978 and Sekaran, 2003).

3.8 Data Analysis

Data collected was both qualitative and quantitative in nature and analyzed appropriately using descriptive statistics. Descriptive statistical tools help the researcher to describe the data. These tools include frequencies, percentages, mean and standard deviation. Correlation analysis was used to analyze the relationship between variables. Results were presented in tables, charts, graphs and prose-form. This involved tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of statistical packages. Content analysis was used to test data that is qualitative in nature or aspect of the data collected from the open ended questions. According to Baulcomb, (2003), content analysis uses a set of categorization for making valid and replicable inferences from data to their context.

4. RESULTS AND DISCUSSION

4.1 Introduction

This chapter outlines the intrinsic meaning of the research data obtained through survey questionnaire (attached in appendix 1). A sample of 40 IKME owner managers was drawn from a target population of 90 IKME owner- managers in Kiambu County. Questionnaires were distributed to a sample of 40 owner-managers; and were completed by 34 respondents, forming a response rate of 85 percent. In this chapter, the presentation of the data collected and analysis conducted was done by systematically relating it to the format of the questionnaire used to collect the data.

4.2 Description of the Sample

Micro enterprises with employee size of minimum 1-3 and maximum of 11-20 were included in the sample of the study. From the total respondents, 25 (78 percent) were male and 7 (22 percent) were female (appendix 3). The textile manufacturing sector apart from garment sector is male dominated and it was expected that most of respondents would be male. The sample includes respondents from different age groups; with the youngest aged 20-24 (3 percent) and the oldest over 45 years (12 percent). Majority of the owner-managers (61 percent) were aged 41-45 years (Figure 4.2.1). At this age (41-45 years), workers are very productive and are financially stable hence they start planning for investment and retirement. 18 percent of the respondents aged 36-40; 3 percent aged 25-30 years; while 3 percent are aged 31-35 years. 65 percent of the respondents had training on knitting technology while 35 percent had none. 62 percent of the respondents had training on business management while 38 percent had none.

79 percent of the respondents had work experience on knitting business while 21 percent had none (appendix 3). This implies that the respondents have potential for growth in knitting business. This supports in depth interview report that most of IKMEs initially worked in the Asian owned medium and large firms in Kiambu County. The county hosts a large number of textile firms and is the epicenter of the IKMEs. Respondents included formal (registered) and informal (none registered) IKMEs. 61 percent of the respondents were registered while 39 percent were not registered (appendix 3). This suggests that the owner managers can exploit marketing opportunities available in the government and other private sectors. Respondents also qualify for financial services offered by micro financial institutions.

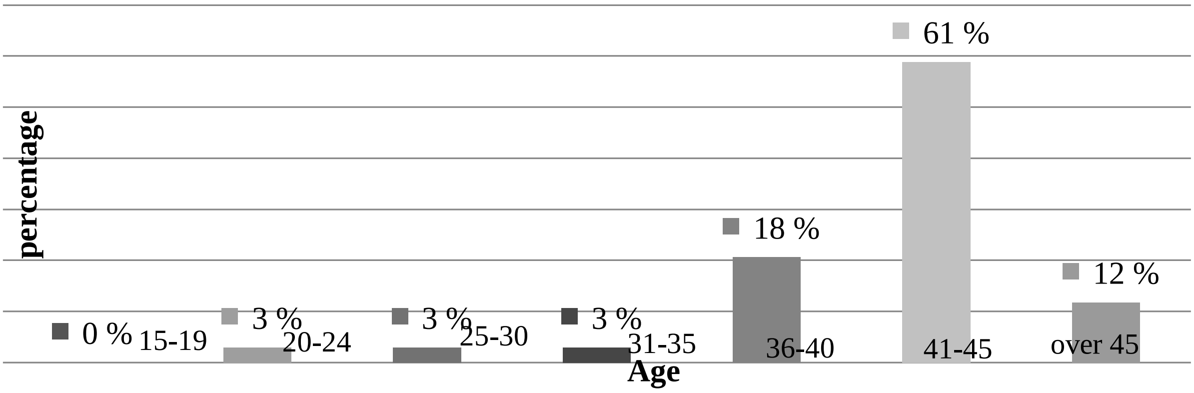

Figure 4.2.1 Age of the respondents

79 percent of the respondents were affiliated to the business as owners and managers at the same time while 18 percent and 3 percent of them were affiliated to the business as owner only and business manager only respectively. From in depth interviews with key respondents, the challenge facing owner managers is the heavy load they carry. They do all the administrative work, operations, accounting, sales and marketing. The owner managers have less trust on their employees who are mostly temporary. They fear that these workers would steal from their businesses if given responsibilities. This implies that the respondents have no time to analyze business environment and set competitive strategies hence their future remains bleak. 33 percent of the IKMEs aged 0-5years; 61 percent aged 6-10 years while only 6 percent were over 10 years. This implies that survival rate of these micro enterprises is questionable and was in agreement with Gerber (2001) who asserted that 96 percent of SMEs are out of business by their tenth year.

94 percent of the respondents said their business was owned by sole proprietor while only 6 percent of the sampled IKMEs were owned by partners (figure 4.2.2). This is consistent with the analysis done by Garoma (2012), Ageba and Amha (2003) and Mwangi (2011) who found that majority of the MSEs were sole proprietors. It can be deducted that sampled enterprises could be adversely affected because of their ownership structure. Academic qualification of the respondents varied from secondary to university with most of them 25 (76 percent) having gone up to secondary (appendix 3). This implies that the literacy levels of owner managers were satisfactory.

This was contrary to Nyabwanga (2011) who found that only 57 percent of owner managers in Kisii south district hardly attend any business training; with 60 percent of them having little or no knowledge in business management and majority having just basic education. This was also contrary to Kiraka, (2013) who noted that MSMEs had low literacy levels; but concurred on lack of business knowledge and competition/shrinking markets as challenges facing them. When asked the reason for starting business; 33 percent cited ‘for better life’; 21 percent retrenched/lost job; 21 percent interest/passion (appendix 3). This suggests that life in the textile industry before the start of the business was not good. The respondent’s quest for better life coupled with job loss and passion leave the respondents with no other option but to work extremely hard. This indicates that these micro enterprises have potential for growth if well supported.

Figure 4.2.2 Business Ownership

IKMEs had a reasonable product portfolio; with an average of 4.0 products. The satisfactory product portfolio suggests potential for growth in this business. All respondents interviewed manufactured school sweaters; followed by security sweaters (23 respondents); institutional sweaters (22) and legwarmers & scarves (21). This implies that demand for school sweaters is very high owing to large number of schools in Kenya. There is need for owner managers to set strategies to tap the high demand of school sweaters especially during high peak periods. All respondents use mobile phone in their business marketing to a very large extent. However, use of internet, e-marketing is negligible. This study concurs with Kiveu and Ofafa (2013) who noted that markets do not function well due to insufficient information. Information and Communication Technology (ICT) provides opportunities for SMEs to improve market access.

4.3 Non Financial Performance

82 percent of respondents did not keep financial records (appendix 3) implying the difficulty in eliciting financial data thereby resulting into non financial performance data. The study measured non financial performance using three variables: growth in number of employees, capital growth and market growth per annum. It was found that employment growth rate per year was 12.36 percent (table 4.3.2). This suggests that this business is labor intensive and as it expands, employees also increase. This also suggests that there is potential for job creation in this business. Annual Capital growth was high (194.71 percent) and varying (standard deviation 598.14 percent). This could have been attributed to respondents' purchase of 'expensive' assets like embroidery machines. Market for respondent's businesses grew by 9.03 percent per annum. Worth noting are the varying standard deviations, with capital growth being the highest (598 percent) and employment growth the lowest (10 percent). Some respondents may have purchased the expensive assets; others may not. 90 per cent of the respondents (26) stated that non financial performance of their business for the last five years had 'improved,' while 65 percent stated that their business' non financial performance since inception was 'good,' (table 4.3.1). 35 percent noted it as having performed 'averagely.'

Table 4.3.1 Non Financial Performance

Variable	**Item**		**Frequency**	**percent**
Most pressing challenge	(i)	access to finance	4	13
	(ii)	seasonal market	16	50
	(iii)	increased competition	11	34
	(iv)	debt collection	1	3
Non Financial performance				
(i) For the last 5 years	(i)	improved	26	90
	(ii)	unchanged	3	10
(ii) Since inception	(i)	good	20	65
	(ii)	average	11	35
Extent of effect of Competition	(i)	to no extent at all	0	0
	(ii)	to a low extent	3	9
	(iii)	to a moderate extent	20	61
	(iv)	to a great extent	10	30
	(v)	to a very great extent	0	0

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A bivariate Pearson correlation coefficient was carried out to test the correlation and relationships among competitive strategies (independent variables) and between them and respondents non financial performance (dependent variable). Pearson correlation matrix table 4.3.3 shows that competitive strategies had strong positive correlations with financial performance: cost leadership strategy (r= 0.73); differentiation strategy (r= 0.80) and focus strategy (r= 0.90). This suggests that cost leadership strategy had relatively the weakest influence on financial performance of IKMEs while focus strategy had the highest influence. This is in agreement with Hunsah *et al*., (2013) who asserted that intangible assets are important investments since they are the basis for determining competitive strategy to achieve more optimal financial performance of the Rattan SMEs. This finding does not concur with Guthrie *et al.*, (2002) who found that high involvement work practices is positively related with performance in firms competing on basis of differentiation and shows no relationship in firms pursuing cost leadership. This study supports the direct influence of the Porter's Competitive Strategy on financial performance. Other studies which support this include Yamin *et al*., (1999) and Finney *et al*., (2007). This study is not consistent with studies by Amoako and Acquoah (2008) where the implementation of competitive strategy has no effect on corporate performance.

4.4 Competitive Strategies

The study found that competition moderately affected performance of 61 percent of businesses (20) while 30 percent of businesses (10) were greatly affected by competition (table 4. 3.1). This was in agreement with the study by Bowen et al (2009) who found that 89.4% of respondents cited 'increased competition' as the most pressing challenge among small and micro enterprise in Nairobi, Kenya. The study was based on Porter's Competitive Strategies: Cost Leadership; Differentiation and Focus Strategies. Porter's Competitive Strategies were preferred due to their wide application in the value chain. The results of the study show that competitive strategies positively and significantly influence non financial performance of micro enterprises. Of the three competitive strategies, focus strategy was most widely used by the micro enterprises while cost leadership was least used (figure 4.3.1).

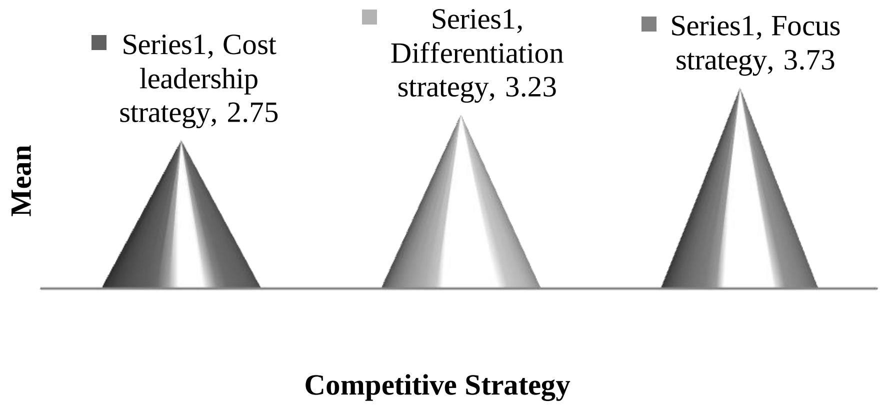

Figure 4.3.1 Extent of using Competitive Strategies

4.4.1 Cost Leadership Strategy

From the findings of the study (appendix 2), Cost leadership strategy was rarely used by the respondents, (mean 2.75 in a scale of 1-5 and standard deviation 0.58). This suggests that micro enterprises in Kiambu county do not use cost reduction measures in their processes hence they do not sell their products cheaper than competitors. They hardly consider waste reduction. The mode of payment for the workers was piece rate and not hourly rate hence the issue of maximizing production to reduce costs was not considered. This was contrary to the expectation that micro enterprises use cost leadership strategy to compete. Cost leadership strategy had weak positive correlation of 0.55 with differentiation strategy; medium positive correlation of 0.68 with focus strategy and strong positive correlation of 0.73 with non financial performance (table 4.3.3).

4.4.2 Differentiation Strategy

Differentiation strategy was 'sometimes' used by respondents (mean 3.23 in a scale of 1-5 and standard deviation 0.88). This was the second most popular used strategy among the three strategies (figure 4.3.1). Differentiation strategy had strong and positive correlation of 0.83 with focus strategy and 0.80 with non financial performance (table 4.3.3).

4.4.3 Focus Strategy

Focus strategy was 'often' used (mean 3.73 in a scale of 1-5 and standard deviation 0.91). This strategy was the most popularly used among the three generic strategies (appendix 2). This finding concurs with Onyango and Kerre (2011); and Bowen, Morara and Mureithi (2009) who observed that SMEs focus on fragmented or niche markets due to their ability to innovate. Focus strategy had the strongest positive correlation of 0.90 with non financial performance of micro enterprises.

Providing outstanding customer service and quality products are key focus strategy factors/ items for success among the micro enterprises (figure 4.3.2).

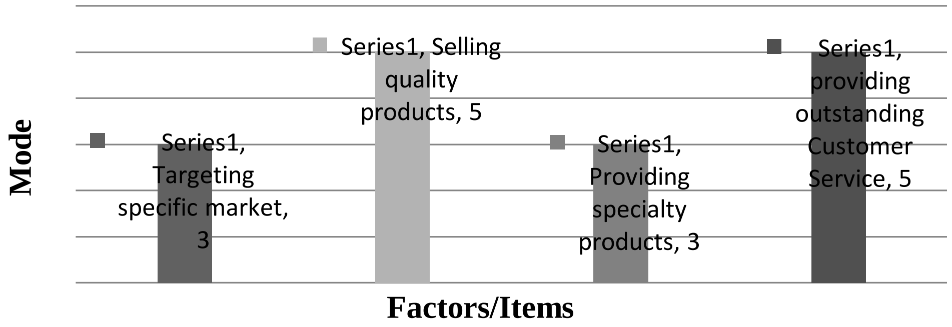

Figure 4.3.2 Focus Strategy Factors - The Extent of Usage

This concurs with Bowen et al (2009) who found that 30.2 percent of respondents mentioned good customer service as the main method of countering their competitors. This also concurs with Gok (2011) who stated that competitiveness of SSEs remain weak due to poor product quality, packaging, advertizing and distribution.

Table 4.3.2 Non Financial Performance Indicators

Indicator	Percentage Performance per annum	Standard Deviation
Market growth	9.03	10.12
Employment growth	12.36	9.84
Capital growth	194.71	598.14

The results of this study indicate that the most dominant strategy affecting financial performance is focus. These studies contrast with Husnah *et al*., (2013) who found that the most dominant strategy affecting financial performance of Rattan SMEs was differentiation.

Table 4.3.3 Pearson's Correlation (r) among Independent Variables, and with Dependent Variable

Variable	CL	DS	FS	FP
Cost Leadership Strategy (CL)	1			
Differentiation Strategy (DS)	0.55	1		
Focus Strategy (FS)	0.68	0.83	1	
Financial Performance (FP)	0.73	0.80	0.90	1

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The study was conducted to establish the influence of competitive strategies on non financial performance of MSMEs in Kenya with a focus on IKMEs in Kiambu County. The study sought to identify the competitive strategies used by the IKMEs and how their use influenced non financial performance. The objective of the research was to establish how competitive strategies (cost leadership, differentiation and focus) influenced non financial performance of IKMEs in

Kiambu County. To realize this objective, the study employed 40 questionnaires to collect data from a sample of IKMEs in Kiambu County. Data was then analyzed using descriptive and inferential methods. The study found out that competitive strategies positively and significantly influence non financial performance of micro enterprises in Kenya. The most widely used competitive strategy was focus (mean 3.73 in a scale of 1-5), followed by differentiation strategy (mean 3.23 in a scale of 1-5). The least used competitive strategy was cost leadership (mean 2.75 in a scale of 1-5). This finding concurs with other researchers (Biggeri *et al.,* 1999) who suggested that MSMEs mainly use focus and differentiation strategies due to their flexibility; ability to innovate quickly and respond to ever changing customer demands.

The first objective of the research focused on establishing the influence of cost leadership strategy on non financial performance of micro enterprises in Kenya. The study found that cost leadership strategy was the least competitive strategy used by the respondents (mean 2.75 in a scale of 1-5 with a standard deviation of 0.58). Cost leadership significantly and positively influenced non financial performance of micro enterprises (r= 0.73). The large firms can use cost leadership strategy due to their ability to employ economies of scale and scope. Empirical review showed that competition is one of the main challenges faced by MSMEs in Kenya. This study concurs with this finding. Seasonal market is the main challenge (50 percent) followed by competition (34 percent). Literacy levels for the respondents were satisfactory; (secondary 76 percent; tertiary college 18 percent and university 6 percent). This does not concur with Kiraka *et al.,* (2013) who posited that low literacy levels form one of the challenges facing MSMEs. These IKMEs are ‘urbanized’. Financial record keeping still remains a major impediment to MSMEs financial performance with 82 percent of respondents not keeping financial records. This study concurs with earlier studies that showed that most MSMEs were sole proprietorship.

The second objective of the study aimed at determining how differentiation strategy relates to non financial performance of micro enterprises in Kenya. The study found that differentiation strategy was ‘averagely’ used by the owner managers (mean 3.23 in a scale of 1-5 with a standard deviation of 0.88). Differentiation strategy significantly and positively influenced non financial performance of micro enterprises (r= 0.80).The most applied items for differentiation strategy included: giving credit and discount; Fast/ timely delivery and good/unique packing.

The third objective aimed at examining focus strategy and the non financial performance of micro enterprises in Kenya. The study found that focus strategy was the most widely used by the owner managers (mean 3.73 in a scale of 1-5 with a standard deviation of 0.91). Focus strategy significantly and positively influenced non financial performance of micro enterprises (r= 0.90).

The most applied items in focus strategy include: providing out standing customer service and selling quality products. Empirical studies have shown that as much as a firm would pursue one competitive strategy, it must be average on the others. This is contrary to Porter’s assertion that a company can only pursue one competitive strategy at a go to avoid being ‘stuck- in- the- middle’. The mobile telephone industry provided an empirical example of a ‘luck-in the- middle,’ instead of ‘’stuck-in-the-middle’.

Non Financial performance indicators in this study included: market growth; employment growth and investment/capital growth. Both objective and subjective non financial performance data was sought. Furthermore, Subjective measurements are strongly correlated with objective measurements (Dess and Robinson, 1984). Empirical researches previously cited have shown that there is positive correlation between competitive strategies and non financial performance. Capital growth had the highest growth (195%) and the highest standard deviation (598%).This may have been attributed to by some IKMEs purchase of the expensive assets (embroidery machines) while others did not.

The study showed that focus strategy is the one mostly pursued by the respondents (mean =3.73). Pearson’s Correlation coefficient showed that there was a very strong positive relationship (r= 0.90) between focus strategy and financial performance of IKMEs. Holding all other factors constant, it can, therefore, be argued that IKMEs which use focus strategy intensively perform better. There was a strong positive relationship among competitive strategies: cost leadership and differentiation (r= 0.55); cost leadership and focus (r= 0.68); and differentiation and focus (r= 0.83). The study showed that Quality and customer service are valuable success factors in this industry. A customer can pay premium price for a good or service as long as the quality of the good/service is guaranteed.

5.2 Conclusion

MSMEs significant contribution to the Kenya’s economy gave the impetus for this study. As supported by many empirical findings, competition compromises growth and development of IKMEs. Results of this study suggest that competitive strategies positively and significantly influence non financial performance of micro enterprises in Kenya. This study generally indicates that IKMEs non financial performance in Kiambu County is 'good' (table 4.3.1). Pearson correlation matrix table 4.3.3 shows that competitive strategies had strong positive correlations with financial performance: cost leadership strategy (r= 0.73); differentiation strategy (r= 0.80) and focus strategy (r= 0.90). This suggests that focus strategy had the highest influence on non financial performance of IKMEs while cost leadership strategy had relatively the weakest influence. This is in agreement with Hunsah et al (2013).

A firm pursues one strategy but performs the other strategies on average. There was a strong positive relationship among competitive strategies. The IKMEs in Kiambu County pursue focus strategy as a competitive strategy. Success is a mix of strategies. Challenges of seasonal market and competition are still eminent. The owner-managers who have diversified into embroidery machines have a wide range of clientele hence their performance has been very good. A reasonably large portfolio distributes risks and reduces seasonal market. IKMEs which undertook this venture (industrial knitting) long after they had done garment making seem to be doing well. This may have been due to long experience in the business. Financial illiteracy; Competition; lack of marketing skills are challenges facing SMEs. The study contributes to the empirical literature on the influence of Porter's generic competitive strategies on financial performance of micro enterprises in Kenya.

5.3 Recommendation

During high peak periods; maximize on high production targets to exploit the high urgent and short market demand which comes in January and February of every year. During low peak, embark on stock building. This requires good operating capital. Intensively employ competitive strategies during off peak periods. Which ever stock you built; all would be sold in January as long as its quality is satisfactory. This has been the secret of successful industrial knitting micro enterprises in Kenya. The IKMEs should maximize their sales during peak periods and intensively employ competitive strategies during off peak periods. Focus strategy should be more intensively employed to enhance growth and competitiveness of these micro enterprises. The government and other supporting institutions need to focus more on competitive strategy training needs among SMEs and set relevant legal framework to level the field.

There is need for micro enterprises to look for knowledge on financial/non financial and marketing skills for them to increase their competitive edge. There is need for micro enterprises to exploit immense opportunities available in global market by use of Information and Communication Technology (ICT) (e.g. e-marketing). As construed by Ongong'a and Abeka (2011), small firms in developing countries need support to compete and survive in their businesses. Policy recommendations of the government of Kenya as seventh National Development Plan on Divestiture and Sectional Paper No. 2 of 2005; advocate for the government to take a leading role in providing an enabling environment for MSEs market operations. This requires establishment of infrastructure for access to markets, provision of work site structures, market information dissemination through net works and innovation.

Competitive strategy selection and implementation requires human capital, organizational capital and relational capital. Research supports that intangible element of assets (human capital) had no effect (low influence) on performance when not mediated by competitive strategy (Hitt et al 2001). This means that intangible assets alone can not improve performance; the owner manager must choose the right strategy to expand his business. Intangible assets investments are vital since they form the basis for determining competitive strategy to achieve more optimal SMEs performance (Husnah et al 2013).

This research was limited to knitting micro enterprises in Kiambu County. More research is needed in other manufacturing micro enterprises in Kenya. There is need for research on other micro enterprises in Kenya. Because competition and business environment is constantly changing, it is necessary to know the change in future research and to re-examine whether the variables analyzed in this study will change.

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APPENDICES

Appendix 1: Questionnaire

Questionnaire: Competitive Strategies and the Non Financial Performance of Industrial Knitting Micro Enterprises In Kiambu County

Reseacher: Daniel K. Kimatu

MBA Student at Jomo Kenyatta University of Agriculture and Technology

A study is being conducted on influence of competitive strategies on the performance of industrial knitting micro enterprises in Kiambu County. The findings of this study will be useful in understanding their immediate external environment, which mainly constitutes the customer and the competitor. This in turn is likely to generate a learning process that can induce some decision making to enhance firm's competitiveness, performance, growth and profitability. You are kindly requested to participate by responding to the questions in this questionnaire. **Whatever information you provide will be strictly confidential and will only be used by the researchers for study purposes.** Your participation is voluntary and you are free to decline or opt out in the middle should you become uncomfortable. This study has been approved by the relevant authorities. Please respond as honestly as possible for us to get a true picture of the situation. Thank you.

Section One: Demographic and Social details of the Owner/ Manager

Instructions: Please tick (✓) or indicate with a number 1 to 5 where applicable.

1) Gender
   - i. Male ☐
   - ii. Female ☐

2) Age
   - i. 15-19 ☐
   - ii. 20-24 ☐
   - iii. 25-30 ☐
   - iv. 31-35 ☐
   - v. 36- 40 ☐
   - vi. 41-45 ☐
   - vii. Over 45 ☐

3) Highest level of education
   - i. None ☐
   - ii. Primary ☐
   - iii. Secondary ☐
   - iv.Tertiary college ☐
   - v. University ☐

4) Have you ever had any training on knitting technology? i. Yes ☐ ii. No ☐

5) If your answer for No.4 is 'yes', what duration was the training?..............................

6) Have you ever had any training on business management? i. Yes ☐ ii. No ☐

7) If your answer for No.6 is 'yes', what duration was the training?................................

8) Have you ever had any work experience on knitting business? i. Yes ii. No

9) If your answer for No.8 is 'yes', what duration was the experience?............................

10) What is your position in the enterprise?

i. Manager

ii. Owner

iii. Owner-manager

iv. Other (Specify)..

Section Two: Background of the Study

11) How many employees does your enterprise employ in full time and temporary including yourself?

	Current	At the start of business
i. 1 to 3		
ii. 4 to 10		
iii. 11 to 20		
iv. 21 to 30		
v. 31 to 40		
vi. Over 40		

12) Is your business registered? i. Yes ii. No

13) Do you keep any financial records? i. Yes ii.No

14) How old is your enterprise?

i. 0 to 5 years

ii. 6 to10 years

iii.over10years

15) Type of business i. Sole proprietorship ii. Partnership

16) Reasons for starting the business (tick one only)

a) To make money

b) To have independence

c) Identified gap

d) Inspired by mentors, friends, family

e) Retrenched / lost job

f) To keep me busy

g) For better life

h) Interest/ passion

i) Others (specify)...

17) Number of towns covered by the enterprise in their marketing

Current................ At the start of Business.................

18) Product Portfolio (tick the products you make or services you offer)

i. School sweaters ☐ v. Baby Suits ☐

ii. Institutional sweaters ☐ vi. Leg Warmers and Scarves ☐

iii. Security sweaters ☐ vii. Embroidery ☐

iv. Cardigans ☐ viii. Others...

v. Selling other related products ☐ ....

19) To what extend do you agree that the following ICT tools are used in your business marketing? (Tick one in each ICT tool)

ICT tools	**Strongly disagree (1)**	**Disagree (2)**	**Neutral (3)**	**Agree (4)**	**Strongly agree (5)**
i. Telephone					
ii. Computer (Internet, e-mail etc)					
iii. Fax					
iv. Mobile					

20) To what extent has the non financial performance of your business been affected by competition?

To no extent at all ☐

To a low extent ☐

To a moderate extent ☐

To a great extent ☐

To a very great extent ☐

21) In running my business, I always strive to outshine my competitors

(1) not at all ☐ (2) rarely ☐ (3) sometimes ☐ (4) often ☐ (5) very often ☐

Section Three: Cost Leadership Strategy

22) Please indicate the extent to which you use each of the following Cost Leadership strategies to compete with

Cost Leadership Strategy	**Not at all (1)**	**Rarely (2)**	**Some-times (3)**	**Often (4)**	**Very often (5)**
i.) Selling cheaper than Competitors					
ii.) Waste & Defective/B-grade reduction					
iii.) High production targets					
iv.) Investing in modern technology (e.g. high speed-machines, computers etc)					
v.) Machine /process innovation					

Section Four: Differentiation Strategy

23) Please indicate the extent to which you use each of the following Differentiation strategies to compete with other

Differentiation Strategy	**Not at all (1)**	**Rarely (2)**	**Some-times (3)**	**Often (4)**	**Very often (5)**
i.) Good communication					
ii.) Giving credit & discounts					
iii.) Operating at odd periods (e.g. Sundays, holidays, late/early hours)					
iv.) Competitive pricing					

v.) Selling variety of products					
vi.) Source our own customers					
vii.) Fast/timely delivery					
viii.) Advertizing & Brand Identification					
ix.) Broad range of designs and Colors					
x.) Many distribution channels					
xi.) Good/ unique packaging					

Section Five: Focus Strategy

24) Please indicate the extent to which you use each of the following Focus Strategies to compete with other competitors in the knitting industry. (Tick one number in each strategy)

Focus Strategy	**Not at all (1)**	**Rarely (2)**	**Some-times (3)**	**Often (4)**	**Very often (5)**
i.) Targeting a specific market					
A.) ii.) Selling quality /durable products					
iii.) Providing specialty Products					
iv.) Providing outstanding Customer service					

Section Six: Financial Performance.

25) What is currently the most pressing challenge your enterprise is facing? [only one answer is possible]

i. Access to finance ☐
ii. Seasonal Market ☐
iii. Increased competition ☐
iv. Debt collection ☐
v.) Power outages ☐
vi.) High Cost of yarn ☐
vii.) Rent is too high ☐

26) Business' worth? (includes material, machinery and any other assets)

Current Ksh.................. At the Start Ksh.................

27) Over the past 5 years; would you say that the performance of your business has improved, remained unchanged or deteriorated?

i. Improved ☐
ii. Remained Unchanged ☐
iii. Deteriorated ☐

28) Since you started your business, its performance has generally been:

1) Very poor ☐ 2) poor ☐ 3) average ☐ 4) good ☐ 5) very good ☐

Appendix 2: 'Extent' of using Competitive Strategies

Variable	**Mean**	**Standard Deviation**
Cost leadership strategy	2.75	0.58
Differentiation strategy	3.23	0.88
Focus strategy	3.73	0.91

Appendix 3: Background Information

Variable	Item		Frequency	Percent
Gender	male		25	78
	female		7	22
Age	15-19		0	0
	20-24		1	3
	25-30		1	3
	31-35		1	3
	36-40		6	18
	41-45		20	61
	Over 45		4	12
Registration status	Registered		20	61
	Not registered		13	39
Highest education level	None		0	0
	Primary		0	0
	Secondary		25	76
	Tertiary college		6	18
	university		2	6
Training on knitting technology	Yes		22	67
	no		11	33
Training on business management	Yes		20	61
	no		13	39
Training on knitting business	Yes		26	81
	no		6	19
Type of business	(i) sole proprietor		31	94
	(ii) partnership		2	6
Reasons for starting the business				
	(i)	(i) For better life	11	33
	(i)	(ii) Retrenched/lost	7	21
	(ii)	(iii) Interest/passion	7	21
	(iii)	(iv) to make money	3	9
No. of products				
	(i)	1	3	9
	(ii)	2	6	18
	(iii)	3	1	3
	(iv)	4	9	27
	(v)	5	8	24
	(vi)	6	5	15
	(vii)	7	1	3
Keeping financial records				
	(i)	yes	6	8
	(ii)	no	27	82
Seeking to outshine competitors				
	Not at all		1	3
	Rarely		5	15
	Sometimes		19	58
	Often		1	3
	Very often		7	21