

# THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

## Differentiation Strategy and Performance of Small and Micro Manufacturing Enterprises in Nairobi County, Kenya

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### **Abstract:**

*Currently, firms are losing their energy to find methods that offer them to maintain their existing position in the market, as well as to increase the market share and profit and find a way to survive in that market. The main objective of this study was to determine the influence of Porter's generic business strategies on the performance of Micro and Small Manufacturing Enterprises in Nairobi County, Kenya. The research was grounded on competitive business strategy theories. The study adopted the descriptive research design. The target population of this study comprised the business owners/managers of the 596 cottage industry firms operating within the county. The unit of analyses of this study consisted of 596 Micro and Small Manufacturing Enterprise. The unit of observation of this study was business owners/managers. The sample drawn using the Yamane formula was 239 respondents. The researcher collected data using the questionnaire method. Quantitative data were coded into numerical codes, which represented various variables. These codes were then captured into a computer for analysis. The study concluded that there is a positive and significant relation between differentiation strategy and the performance of cottage industry firms in Nairobi County. The study recommends conducting extensive market research to determine the specific needs of the market. The study further recommended that firms should take advantage of the feedback provided by customers as the main market players and integrate the feedback into developing innovative products and services. The study further recommends the development and production of consistent and quality products to retain relevance in a competitive market, boost market share growth and reinforce the performance of the organization.*

**Keywords:** *Differentiation strategy, performance, cottage industry*

### **1. Introduction**

A corporation can pursue one or two sorts of competitive advantages: lower expenses than its competitors or differentiating itself along customer-valued parameters in order to fetch a higher price. A company also chooses one or two types of scope, either focusing on offering its products to selected segments of the market or industry-wide, offering its product across many market segments. The generic strategy reflects the choices made regarding both the type of competitive advantage and the scope (Semuel, Siagian & Octavia, 2017). In today's global economy, firms face an increasingly competitive trade and production environment that requires continued vigilance to stay ahead of rivals. Competitiveness is, therefore, a major preoccupation of national, regional, and local governments worldwide as they seek to strengthen production and growth initiatives. With the increasing global market and internationalization of firms, nowadays, the uncertainty of firms is increased much more, consequently, the ambiguity of firms in answering the question - what do we have to do? (Tohidi & Hassani, 2020).

Competitiveness has emerged as the preeminent issue in many food and beverage manufacturing and exporting firms in Egypt. Achieving global competitiveness calls for firms to upgrade their exports, product differentiation and completeness. Competitiveness requires beverage manufacturing to have a shared vision of what competitiveness is. The strategy of differentiation involves offering a different product, a different delivery system, or using a different marketing approach. The management makes the decision on what to focus on to gain a competitive advantage (Mortazavi, Rasoli & Rostami, 2017). Companies that pursue a differentiation strategy win market share by offering unique features that are valued by their customers. A differentiation approach was highly effective to such an extent that distinctive features are difficult for competitors to imitate. However, the sources of uniqueness must be time-consuming, cost-prohibitive, and simply too burdensome for competitors to match (Gathungu & Baariu, 2018). Kasongo and Misango (2019) show how Kenyan manufacturers make extensive use of cost leadership and product differentiation strategies to remain attractive export players. Wambua (2019) asserts that Cytonn Real Estates company became one of the biggest in Kenya through the adoption of differentiation, targeting and cost leadership strategies which improved the entire sector's product offering and competitiveness.

### 1.1. Statement of the Problem

Globally, Micro Enterprises play an important role in employment creation, income generation, tax revenues, functional products and services, charitable donations, technological developments, and social contributions to communities (Wanjiru, Muathe & Kinyua, 2019). Considering these contributions and small firms' limited resources, it is imperative to understand how strategic management practices and activities develop and impact small firms' performance. The Economic Survey (2017) reported that lately, the contribution to Kenya's GDP is approximately 33% by the sector and that, despite the importance of SMEs to the Kenyan economy, the rate at which new firms are formed has stagnated and the already established SMEs younger than 5 years are collapsing a great deal. However, the MSME report (Republic of Kenya, 2016) showed a high mortality rate of SMEs in Kenya, with a total of 2.2 million businesses having closed from 2012 to 2016. It is argued that the survival rates of Kenyan SME businesses are 10%-20% (Ruhii, Ngugi & Waititu, 2014). It is this minimal survival rate that continues to attract the attention of researchers with a view to putting more emphasis on the survival and performance parameters of the SME industry (Abdul & Ngugi, 2015). Despite this, there has been inconsistency in the empirical findings on how porters' strategies affect the performance of SMEs, particularly in the cottage industry, hence the need to fill this knowledge gap. The study bridged the gap by seeking answers to the research question: What is the effect of differentiation strategy on the performance of Micro and Small Manufacturing Enterprises?

### 1.2. Theoretical Framework

#### 1.2.1. Competitive Advantage Strategy Theory

Competitive Advantage Theory was first initiated by Bruce Henderson, founder of Boston Computer Group, who hypothesized that "competition existed long before strategy" as he draws an analogy between business competition and competition between biological organisms. The study employed Competitive Business Strategy Theory to determine the impact of Market Focus Strategy on Micro and Small Manufacturing Enterprises' performance. Michael Porter introduced the Competitive Business Strategy thesis in 1980. According to Lu, Shem, and Yam (2008), Porter's hypothesis is useful in understanding the strength of an alliance, arguing that high ground begins with the connection with strategies that have the opportunity to oversee quality, insufficiencies, openings, and risks that an alliance face. Hunjra, Faisal and Gulshion (2018) state that Porter's (1980) principal hypothesis surmises that to win in business, a firm needs to get a handle on nonexclusive intense frameworks, including cost master, parcel and focus interest. Differentiation emphasis leverages the particular needs of consumers in certain segments, while cost focus exploits variances in cost behavior in some sectors (Koriow & Karugu, 2018). In application to the study, competitive business strategy theory provides a linkage between environmental factors, firm behavior, and eventual market outcomes where a firm's ability to grow is dependent on the choices the firm makes in response to or to preempt attacks from its competitors which in this case are Porter's generic strategies.

### 1.3. Empirical Review

Gathungu and Baariu (2018) define that differentiation strategy as an approach business develops by providing customers with something unique, different and distinct from products and services their competitors offer in the marketplace. The main objective of implementing a differentiation strategy is to increase competitive advantage in a given market segment. Successful product differentiation involves identifying and communicating the unique qualities of a product or company while highlighting the distinct differences between that product or company and its competitors (Gure & Karugu, 2018). This includes research, new product/service development, new process development and continuous improvement and new business models. Process Engineering Skills are the ability to create systems that make the best use of workers, machines, materials, information, and energy. Process Engineers design processes for use in a wide array of industries, including manufacturing, pharmaceutical, petroleum, and biotechnology (Islami, Mustafa & Latkovikj, 2020).

Empirical studies by Giantari and Jatra (2019) on the Role of Differentiation Strategy and Innovation in Mediating Market Orientation and Business Performance examined the effect of leadership and innovation on differentiation strategy and company performance of hotels in Surabaya, Indonesia. The study used quantitative research methods and data were collected by distributing questionnaires to respondents having a level of positions from 1500 supervisor up to CEO within the organization. Descriptive statistical analysis was performed using SPSS, whereas hypotheses testing used SEM (Structural Equation Modelling) and Partial Least Square (PLS) established that if a product or service is unique, this strategy provides high customer loyalty. Therefore, if customers perceive the product or service as unique, they are loyal to the company and willing to pay a higher price for its product.

According to Farah, Munga and Mbebe (2018), *The Influence of Competitive Strategies on the Performance of Commercial Airlines in Kenya: A Survey of the Airline Industry in Kenya* is an expression of individual and group creativity inside firms, which means that the risk of imitating differentiation is depended on firms' capacity to be creative in finding methods that make the product unique. Moreover, for this strategy, Porter 30 showed the relationship with firm performance and the advantages that firms earn from pursuing a differentiation strategy referring to realizing higher incomes compared with competitors because of mark trust, quality, and perception that clients have for the company product (Giantari & Jatra, 2019).

The study findings found out that a successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features (Gure & Karugu, 2018). declares that to the extent that differentiating attributes are tough for rivals to copy,

a differentiation strategy was especially effective. However, the sources of uniqueness must be time-consuming, cost-prohibitive, and simply too burdensome for rivals to match. Therefore, the firm should pay attention when it decides to pursue the differentiation strategy. In their research, Koriyow & Karugu (2018) have found that implementing a differentiation strategy in manufacturing innovative companies positively influences the probability of establishing agreements of R&D cooperation and innovation with other organizations.

## 2. Research Methodology

The study adopted the descriptive research design. The major purpose of descriptive research is to describe the state of affairs as it exists at present. Asenahabi (2019) observes that a descriptive research design is used when data are collected to describe persons, organizations, settings or phenomena. The descriptive design also has enough provision for the protection of bias and maximized reliability. The population of the study was the people working in the Cottage Industry firms operating in Kenya. According to the Kenya Cottage Expo (2021), the industry comprises 596 firms. From the target population of 596, the sample size was computed based on Yamane's 1967 sample size formula, as shown below:

The Yamane formula given below was used to determine the sample size.

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

Where:

n= corrected sample size,

N = population size, and

e = Margin of error (MoE),

e = 0.05 based on the research condition (Yamane, 1967).

$$239 = \frac{596}{1 + 596 (.05)^2}$$

The sample size for the study was 239 respondents. The study relied on a structured questionnaire in the process of data collection. The questionnaire was developed with reference to the research objectives aimed at answering the research questions. The questionnaire had close-ended questions. The close-ended questions provided more structured responses, which facilitated tangible recommendations. For the quantitative reports, the tables consisted of mean and standard deviation values that were used to make an interpretation of the analysis. Percentage, mean and standard deviation were used to show the frequency of responses. Tables were used to display the rate of responses and to facilitate comparison. Inferential statistics include both correlations to show the strength of the relationship between differentiation strategies and the performance of Micro and Small Manufacturing Enterprises in Nairobi County, Kenya.

## 3. Results and Discussion

### 3.1. Performance of Cottage Industry Firms

The dependent variable reviewed the responses obtained from the performance of the MSMEs in the cottage industry and results are shown in table 1.

	N	Sum	Mean	Std. Deviation
The company is able to maintain effectiveness in the provision of our products and services	163	647.00	3.9693	.97134
The company ensures there is efficiency in undertaking all internal operations	163	655.00	4.0184	.86404
The company has sustained its profit margins despite changes in the operating environment	163	640.00	3.9264	.87177
The company has maintained the financial and operational sustainability of our offering	163	655.00	4.0184	.82006
The company has a positive outlook on the health of the business going forward	163	649.00	3.9816	.95886

Table 1: Performance of Cottage Firms  
Source: Survey Data (2022)

The results showed the number of respondents who agreed that the firm has attained efficiency in undertaking all internal operations (mean =4.018, dev = .864). The owners agreed (mean = 4.018, dev = .820) that the firm has maintained the financial and operational sustainability of our offering. Further analysis revealed that there were some respondents who agreed that the firms maintain effectiveness in the provision of our products and services (mean = 3.969, dev = .971).

### 3.2. Differentiation Strategy of Cottage Industry Firms

The study analyzed the differentiation strategy adoption within the firms and the results are presented in table 2.

	N	Sum	Mean	Std. Deviation
The company continuously conducts differentiation practices to improve the creation of new products and services	163	668.00	4.0982	.77948
Through differentiation strategies, the company is able to leverage better decision-making to expand its operations	163	654.00	4.0123	.82393
The company utilizes differentiation strategies to drive the value we offer to our customers	163	658.00	4.0368	.80806
As a result of differentiation strategies, the company is able to respond to market changes more quickly and efficiently	163	635.00	3.8957	.84337
Through applying differentiation strategies, the company is able to create a centered business vision and carry it to completion	163	627.00	3.8466	.79801
The company provides customer-friendly packaging for its products and services	163	641.00	3.9325	.83982
The company routinely communicates the points of difference in the products/services it offers in relation to the competitors in the market	163	630.00	3.8650	.78186

*Table 2: Differentiation Strategy of Cottage Industry Firms  
Source: Survey Data (2022)*

The findings demonstrated agreement among respondents (mean= 4.098, dev = .779) that the firm continuously conducts differentiation practices to improve the creation of new products and services. The respondents agreed (mean= 4.037, dev = .808) that the firm utilizes differentiation strategies to drive the value we offer to our customers. Results revealed the number of respondents who agreed that the firm provides customer-friendly packaging for its products and services (mean = 3.932, dev = .839) and those who agreed that the firm routinely communicates the points of difference in the products/services it offers in relation to the competitors in the market (mean = 3.865, dev = .782).

### 3.3. Inferential Results

#### 3.3.1. Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.000	2.268		3.527	.001
	Differentiation Strategy	.338	.064	.401	5.255	.000

a. Dependent Variable: Performance Of SME

*Table 3: Regression Coefficient*

The findings of the first objective focused on the relationship between differentiation strategy and the performance of cottage industry firms. The resulting  $\beta_1 = .338$ , sig = .000<.05. This showed there was a positive and significant effect of differentiation strategy on the performance of the firms indicating that a change in differentiation strategy by a single unit will lead to a .338 variation in the performance of cottage industry firms in Nairobi County. The study findings were further ratified by Farah, Munga and Mbebe (2018), who researched the influence of competitive strategies on the performance of commercial airlines in Kenya. The study established that there existed a positive and significant relationship between the differentiation of products or services and the performance of commercial airlines in Kenya. The study further noted that differentiation of products or services is an expression of individual and group creativity inside firms, which means that the risk of imitating differentiation is depended on firms' capacity to be creative in finding methods that make the product unique. The study concluded that pursuing a differentiation strategy brings about a higher competitive advantage which means realizing higher incomes than competitors because of mark trust, quality, and perception that clients have for the company product. Further studies in Kenya by Gure and Karugu (2018) and Koriyow & Karugu (2018) were in line with the current study findings since they found out that a successful differentiation strategy directly contributes to the enhanced performance of an organization. Gure and Karugu (2018) further noted that a successful differentiation strategy allows a firm to charge a higher price for its product and gain customer loyalty because consumers may become strongly attached to the differentiation features. Koriyow and Karugu (2018) also concluded that the implementation of a differentiation strategy in manufacturing innovative companies positively influences the probability of establishing agreements of R&D cooperation and innovation with other organizations.

#### 4. Conclusions

The study concluded that there was a positive and significant relationship between differentiation strategy and the performance of cottage industry firms in Nairobi County. The study also came to the conclusion that continuously conducting differentiation practices within the firm will improve the creation of new products and services while also driving the value we offer to our customers and, eventually, the performance of the firm. A firm is also able to improve its decision-making by applying various differentiation strategies. The study further concluded that utilizing differentiation strategies enables the company to respond to market changes more quickly and efficiently while also creating a centered business vision and carrying it to completion, which eventually leads to improved firm performance.

#### 5. Recommendations

The study findings established that the differentiation strategy has a positive and significant relation with the performance of Micro and Small Manufacturing Enterprises in Nairobi County. In line with this conclusion, the study recommended that cottage firms should place more emphasis on the development of new innovative products unique from the current products in the market. The goal of this should be to satisfy the needs of the customers in one or several product attributes in order to develop customer satisfaction and loyalty. This will increase the competitive advantage of the organization and ensure increased sales, market share and overall performance.

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