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## **Effect of Growth Strategies on the Performance of Small and Medium Size Enterprises in the Tourism Industry**

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### ***Abstract:***

*The objective of the study was to assess the effect of growth strategies on the performance of small and medium size travel and tours enterprises in Nairobi County, Kenya and a corresponding hypothesis was formulated and tested. The study targeted 40 employees from four leading travel firms in Nairobi County and 39 of them responded. Data was collected using structured questionnaires and analyzed by use of Statistical Package for the Social Sciences, Version 21. The study found a positive and statistically significant effect of growth strategies on performance of small and medium size travel and tours enterprises in Nairobi County, Kenya. The study findings support the Resource Based View Theory (Barney, 1986) and Schumpeter's Growth Theory of Innovation (1934). The study recommends adoption of several growth strategies to leverage potential profitability and internal business processes synergies for enhanced enterprise performance.*

**Keywords:** *Growth strategies, Enterprise performance, Small and medium enterprises, Resource-Based View (RBV) Theory, Schumpeter's Growth Theory of Innovation*

### **1. Introduction**

Growth strategies as contained in Ansoff's growth matrix outlines a process for considering strategic growth developments with an outcome of four options namely: using an existing product for an already existing market, discovering a new market for an existing product, using an already existing market for a new product and lastly, discovering a new product to sell in a new market (Patridge & Sinclair-Hunt, 2005). According to Simons (2000), enterprise performance is a measure of output in financial and non-financial metrics. Although several studies have been conducted on the growth strategies - enterprise performance link, most of them focus on one growth strategy or generic and stability strategies (Anyango & Nyamita, 2016; Wagitu, 2011). These studies were also carried out in different contexts. Previous studies have also operationalized enterprise performance differently.

### **2. Growth Strategies**

In a dynamic business setting, the management of enterprises should aggressively determine the strategic direction to take so as to succeed in the current competitive business environment. This calls for them to embrace a thorough understanding of the setting within which their enterprises exist (Kotler & Armstrong, 1996). When considering the choices in the market for the strategic development of its business, management may make use of Ansoff's growth strategies which include product development, market development, product diversification and market penetration (Ansoff, 1958). This study has, therefore, addressed the four growth strategies as contained in the Ansoff's growth product - market four cell matrices.

### **3. Enterprise Performance**

According to Kaplan and Norton (1993), many firms consider the initial balanced-scorecard (BSC) idea to help better their performance. Firms are employing the scorecard to streamline up to date strategy, convey strategy throughout the firm, align business and individual goals with the strategy, integrate strategic objectives to long-term goals and annual financial plans, establish and streamline strategic initiatives, and roll out periodic performance reviews to develop best practices. The BSC assists organizations to structure their management processes and the execution of long-term strategy (Otley, 1999). Amongst the most effective and well-known performance management systems rely on Kaplan and Norton's (1992, 1996) definition of a balanced scorecard which contains perspectives such as financial, customer, internal business processes, and learning and growth. The extant study adopts two perspectives of the balanced scorecard namely; internal business processes and financial (profitability) which are more relevant to the performance of travel and tours firms. The two perspectives provide a balance between financial and non- financial measures of enterprise performance.

#### 4. Small and Medium Enterprises in the Tourism Industry in Kenya

Small and medium enterprises (SMEs) can broadly be identified as businesses in both formal and informal sectors, classified into categories employing 1-50 workers (Government of Kenya, 2010). Tourism is an integral part of the Kenyan economy and contributes to the gross domestic product (GDP) of the country. Tourism is among one of Kenya's significant earners to the economic development at a rate of 10% to the Gross Domestic Product. The tourism industry after the agribusiness, agriculture, and tea is the third biggest supporter of GDP and furthermore, the third driving exchange wage contributor (Central Bureau of Statistics, 2009). From the clear water beaches, terrains, and sites, and virgin natural forests, the Kenyan tourism sector has a variety to offer to tourists. Apart from building the economy by making avenues available for work as it is a labor-intensive sector, forex exchange earner, financial earner and government income earner, the tourism segment assumes a key part making its demand incremental. It is now widely recognized that SMEs have an important role to play in the growth and development of countries through job creation and distribution of the benefits of economic development (Central Bureau of Statistics, 2009). Moreover, and most importantly the sector can assist in boosting productivity by increasing competitive influence within the economy. It is estimated that there are about 7.5 million SMEs in the Republic of Kenya, providing employment and financial opportunity generation to low financial earners in different sectors of the economy. Nairobi County is tasked to make sure that it will make a meaningful contribution to the realization of Kenya's social, economic, and political pillars as detailed in Vision 2030. The Economic Pillar encourages the promotion of tourism and establishment of markets in wholesale and retail trade. This means that SMEs in Nairobi are encouraged and promoted to thrive though most still fail in the first few years of existence. Most SMEs lack the strategic tools required to equip themselves in the harsh competitive landscape that Nairobi offers (Muhenje , Nyamwange, & Otunya, 2013)

#### 5. Growth Strategies and Enterprise Performance

Several studies have been carried out to determine the effect growth strategies have on enterprise performance. A study conducted by Anyango and Nyamita (2016) on the major growth strategies adopted by Small and Medium Enterprises in Kisumu County in Kenya , established that entrepreneurs who had embraced growth strategies improved the performance of their enterprises. In another study by Wanjiru and George (2015) carried out to analyze the influence of organic growth strategies on the performance of SMEs in Thika Sub-County in Kenya, it was found that growth strategies, and particularly market development and market penetration strategies were instrumental in developing the client base. Further, Rono and Moronge (2015) established positive and significant effect of product development and product diversification on the performance of small and medium size enterprises. For the purpose of this study, the following hypothesis was formulated: Growth strategies have a positive and significant effect on the performance of small and medium size travel and tours enterprises in Nairobi County in Kenya.

#### 6. Methodology

The study adopted a descriptive research design. Primary data was collected from 39 employees from strategic, technical and operational levels of four leading travel and tours firms in Nairobi County, Kenya using a structured questionnaire. A pre-test was done, and based on the pre-test results, the instrument was amended accordingly. Data was analyzed using SPSS version 21 and the results of the analysis were presented using tables.

#### 7. Results and Analysis

The study used descriptive and inferential statistics to analyze data from the questionnaires. Simple linear regression analysis was used to establish the effect of the independent variable on the dependent variable. The value of R-squared shows the amount of variation in the dependent variable caused by the independent variable. The unstandardized coefficient shows the amount of change in the dependent variable attributable to the amount of change in the predictor variable. The F-statistics measure the goodness of fit of the model. The statistical significance of the hypothesized relationship was interpreted based on  $R^2$ , F, t, B and p values. The regression model used was:  $Y = \beta_0 + \beta_1 X_1 + \epsilon$ , where Y= Enterprise performance;  $\beta_0$ = Intercept;  $\beta_1$ =Coefficients;  $X_1$  = Growth Strategies and  $\epsilon$ =Error term.

##### 7.1. Study Response Rate

Out of the 40 questionnaires distributed to the respondents, 39 questionnaires were returned fully completed resulting to a response rate of 97.5 % which was excellent to undertake data analysis. A response rate of above 70% is considered excellent (Mugenda & Mugenda, 2003).

##### 7.2. Gender of Respondents

The study established that there were more male respondents than the female. The male respondents had a representation of 25 out of 39 (64.1%) respondents compared to 14 (35.9%) female respondents. However, the gender representation did not affect the objectivity of the study considering that the research was not gender oriented. Thus, even with the significant disparity between the male and female respondents, there was an insignificant effect on the reliability and validity of the study.

### 7.3. Age of the Respondents

Age	Frequency	Percent
20-30	21	53.8
31-40	11	28.2
41-50	6	15.4
51 and Above	1	2.6
Total	39	100.0

Table 1: Age of Respondents

- The study sought to establish the age of the respondents. The results of the analysis are presented in Table 1.

Results from Table 1 indicates that, 21 out of 31 (53.8%) respondents were aged between 20-30 years; this number was the highest followed by the respondents aged between 31-40 years who were 11 (28.2%). The least number of respondents were those aged 51 years and above who had a representation of 1 (2.6%) while the second least was respondents aged between 41-50 years who were 6 (15.4%). The high representation of the respondents aged between 20-30 years agreed with the study by Yabs (2010) who noted that travel and tours SMEs employ young and motivated employees to assist in their marketing activities for market development and penetration growth strategies such as marketing activities and brand representatives.

### 7.4. Education Level of the Respondents

The study sought to establish the respondents' level of education. Table 2 presents the results of the analysis.

Level of Education	Frequency	Percent
Primary Level	2	5.1
Secondary Level	10	25.6
Diploma	6	15.4
University Degree	17	43.6
Postgraduate Degree	4	10.3
Total	39	100.0

Table 2: Level of Education

Results from Table 2 indicated that a majority of the respondents had a university degree; this was a representation of 17 out of 39 (43.6%) respondents. The respondents with secondary level of education were 10 (25.5%), while those who had diploma were 6 (15.4%) followed by the postgraduate respondents who were 4 (10.3%) and 2 (5.1%) respondents with a primary level of education. Having a majority of the respondents with a university degree was an advantage to the study given that they have educational background of growth strategies of an organization.

### 7.5. Years Respondents Worked

Years worked	Frequency	Percent
2 to 4 years	14	35.9
4 to 8 years	14	35.9
Above 8 years	3	7.7
Less than 1 year	8	20.5
Total	39	100.0

Table 3: Years Worked

- The study sought to establish the number of years worked by respondents. Results of the analysis are presented in Table 3.

Results from Table 3 indicated that most of the respondents had worked for 4-8 years, a number that equaled that of the respondents who had worked for 2-4 years who were 14 (35.9%). The respondents who had worked for less than 1 year were 8 (20.5%) while the least number of respondents had worked for above 8 years in the companies. Since most of the respondents have more than 4 years working experience, it is evident that they were aware of the growth strategies as Afande (2015) noted that such strategies are implemented by an organization either in short-term intervals of 1 year such as continuous new product development and market penetration strategies or long-term growth strategies of 2-5 years such as market segmentation strategies. Thus, the researchers were able to get reliable information about the growth strategies.

### 7.6. Organizational Hierarchy

Level of Organization	Frequency	Percent
Strategic Level	8	20.5
Operational Level	14	35.9
Technical Level	17	43.6
Total	39	100.0

Table 4: Organizational Hierarchy

- The study sought to establish the organizational hierarchy of the respondents. Results of the analysis are presented in Table 4.

Results from Table 4 indicated that 17 out of 39 (43.6%) respondents were from the technical levels, as opposed to respondents who were from the operational and strategic levels which were 14 (35.9%) and 8 (20.5%) respectively. This means that the accessible population from each level was representative enough to increase the reliability and validity of the data collected and analyzed.

### 7.7. Test of the Hypothesis

The study sought to establish the effect of growth strategies on the performance of small and medium size travel and tours enterprises in Nairobi County in Kenya. The results of the regression analysis are shown in Table 5.

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.436 <sup>a</sup>	.190	.168	1.31674	
ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	15.080	1	15.080	8.698	.005 <sup>b</sup>
Residual	64.151	37	1.734		
Total	79.231	38			
Regression Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.119	.549		2.037	.049
Growth Strategies	.567	.192	.436	2.949	.005

Dependent Variable: Enterprise performance

Predictor Variable: Growth Strategies

Table 5: Effect of Growth Strategies on Enterprise Performance

## 8. Discussion

The results from Table 5 indicate that  $r=0.436$  implying a moderate correlation between growth strategies and enterprise performance. The R-square is 0.190, implying that 19% of the variation in enterprise performance is explained by growth strategies and 81% is explained by other factors which are not part of this study. From the ANOVA results, it was indicated that the model is statistically significant ( $F=8.698$ ,  $p<0.05$ ). Therefore, the model containing growth strategies and enterprise performance has goodness of fit. This means that the model is adequate to explain the effect of growth strategies on enterprise performance. The regression coefficients indicate that a one-unit change in the use of growth strategies lead to 0.567 increase in enterprise performance. Overall, the regression model shows that growth strategies have positive and significant effect on the performance of small and medium tour and travel enterprises ( $P<0.05$ ). These findings agree with the findings of the study by Wanjiru and George (2015) who established significant effect of growth strategies on business performance.

## 9. Conclusion

The study sought to establish the effect of growth strategies on the performance of small and medium size travel and tours enterprises in Nairobi County, Kenya. The study was conducted through a descriptive research design. The study employed both descriptive and inferential statistics to analyze the data. The study tested and confirmed the hypothesis that growth strategies have a significant and positive effect on the performance of small and medium size travel and tours enterprises. The implication is that enterprises that adopt growth strategies stand a chance to experience growth.

## 10. Acknowledgements

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