

INFLUENCE OF DIFFERENTIATION STRATEGIES ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN MAKUENI COUNTY, KENYA

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ABSTRACT

Small and Medium Enterprises (SMEs) are vital for economic development, yet many face significant challenges hindering their growth, often leading to premature failure. To address these challenges, SMEs increasingly adopt differentiation strategies to thrive in competitive environments. This study examines the impact of differentiation strategies—product differentiation, personnel differentiation, market focus innovation, and factor innovation—on the growth of SMEs in Makueni County. Grounded in the Diffusion of Innovation theory and Schumpeter's theory of innovation, the research employs an explanatory design targeting 1,890 registered SMEs. Using Yamane's formula, a sample of 330 SMEs was selected through stratified sampling. Data collection utilized questionnaires, and SPSS version 25 was employed for analysis, incorporating descriptive statistics and regression analysis to test hypotheses regarding growth influences. Results indicate that product differentiation accounts for 31.6% of growth variability, personnel differentiation for 32.4%, market focus innovation for 29.1%, and factor innovation for 33.6%. All strategies proved essential for SME growth, providing actionable insights for managers and policymakers. Future research should expand beyond Makueni County and include diverse sectors to enhance understanding of differentiation strategies and their effects on business growth.

Key Words: *Small and Medium Enterprises, Differentiation Strategies, Makueni County, Kenya*

I. INTRODUCTION

Small and Medium Enterprises (SMEs) are widely acknowledged as key drivers of economic growth, innovation, and employment across the globe. In many countries, SMEs contribute significantly to the economy. For instance, in the United States, SMEs make up 99.9% of all businesses and are major job creators, employing over 56 million workers and generating more than \$16 trillion in revenue by the end of 2021 (Bayraktar et al., 2017; Delfino, 2024). Despite their smaller scale, these businesses are essential to the economic and social fabric, recognized by 86% of adults for their positive influence.

In Europe, SMEs account for 99.8% of non-financial businesses, providing approximately two-thirds of all jobs (Floyd & McManus, 2022). The European Union (EU) actively supports SMEs through initiatives like Horizon 2020 and COSME, which provide funding and resources for research, development, and innovation (Valcheva, 2023). These programs aim to unlock the potential of SMEs as engines of innovation and competitiveness, contributing to sustainable growth across the region.

In Asia, SMEs represent more than 96% of all businesses and provide two-thirds of private-sector jobs (Yoshino & Taghizadeh-Hesary, 2018). However, they face significant challenges, particularly in accessing

affordable finance due to issues like information asymmetry and high transaction costs. In response, solutions such as the development of credit information systems and sustainable credit guarantee schemes are being explored to help SMEs overcome these barriers and enhance their access to financing (Lika & Lleshaj, 2023). In China, SMEs are integral to the economy, contributing over 60% of GDP, 50% of tax revenue, 70% of technological innovations, and 79% of employment (OECD, 2022). The growth and distribution of SMEs in China continue to expand, albeit at a slower pace due to various economic factors.

In developing countries, SMEs are even more critical, playing a significant role in employment and income generation, especially in regions where large-scale industries are underdeveloped. However, SMEs in these areas face numerous challenges, including inadequate labor, limited access to technology, and unfavorable business environments. For example, many SMEs in Vietnam struggle to adapt to competitive markets due to limited resources (Oslo, 2019). To navigate these challenges and maintain sustainability, SMEs must adopt competitive strategies such as product differentiation, innovation, and market focus.

In Africa, the SME sector is crucial for economic development. Research shows that the growth of SMEs contributes to the overall economy, with entrepreneurship playing a significant role in employment generation and economic advancement (Adeosun & Shittu, 2022). However, studies by Muriungi (2018) and Onyango (2017) indicate that for SMEs to remain competitive, they must focus on managerial capacity, innovation, and strong internal management systems. Furthermore, sound financial management practices are essential for enhancing SME performance, as evidenced by studies in Western Uganda (Abanis et al., 2013) and Tamale, Ghana (Saah, 2015).

In Kenya, SMEs contribute significantly to the GDP of the country. However, many face severe challenges, particularly in rural areas like Makueni County, where poor infrastructure, insecurity, and limited market access hinder business growth. According to the Kenya National Bureau of Statistics ([KNBS], 2018), a large percentage of Kenyan SMEs fail to survive beyond their first year due to competition, inadequate financial resources, and poor strategic planning (Ngatia, 2018).

Given these challenges, the adoption of competitive strategies, particularly differentiation, is vital for the survival and growth of SMEs in Kenya. By focusing on differentiation strategy, SMEs can enhance their competitiveness and improve their chances of long-term success. Despite the growing recognition of differentiation as a key competitive strategy, there is limited research on how SMEs in Kenya, particularly in Makueni County, have adopted differentiation strategies and how these strategies impact their growth. This study seeks to explore the effects of differentiation strategies on the performance of SMEs in Makueni County, Kenya.

1.1 Study Objectives

- i. To establish the effect of product differentiation strategy on growth of SMEs in Makueni County, Kenya.
- ii. To examine the effect of personnel differentiation strategy on growth of SMEs in Makueni County, Kenya.
- iii. To determine the effect of market focus innovation strategy on growth of SMEs in Makueni County, Kenya.
- iv. To examine the effect of factor innovation strategy on growth of SMEs in Makueni County, Kenya.

II. LITERATURE REVIEW

2.1 Theoretical Review

The study was guided by three key theories: Lean Procurement Theory, Supply Chain Integration Theory, and Technological Acceptance Theory. Each of these frameworks provides valuable insights into the differentiation strategies employed by Small and Medium Enterprises (SMEs). Lean Procurement Theory, originating from the lean manufacturing principles established by Taiichi Ohno in the 1950s, emphasizes the importance of minimizing waste and maximizing value throughout the procurement process (Rahman et al. 2010). Rooted in Toyota's production system, this theory advocates for efficient resource utilization and continuous improvement, aiming to reduce non-value-added activities. In the context of this study, Lean Procurement Theory supports the idea that

SMEs can enhance product differentiation and operational efficiency by adopting lean practices in their procurement processes, ultimately contributing to their growth.

Supply Chain Integration Theory, which has evolved through the contributions of scholars like Lambert and Cooper since the 1980s, focuses on the alignment and coordination of business processes across the supply chain (Tiwari et al.2024). This theory emphasizes the need for collaboration among various stakeholders to improve efficiency, responsiveness, and competitiveness. In this study, it highlights the relevance of personnel differentiation and market focus innovation strategies for SMEs, demonstrating how integrated supply chain practices can foster better relationships and communication, thereby enhancing overall business growth.

Technological Acceptance Theory, proposed by Fred Davis in 1989, emerged from the field of information systems (Venkatesh & Davis, 2000). This theory explains how users come to accept and use technology, focusing on perceived ease of use and perceived usefulness as critical factors influencing acceptance. In relation to this study, TAM is particularly relevant for assessing how SMEs adopt technological innovations, especially in their factor innovation strategies. Understanding user acceptance of new technologies can be crucial for enabling firms to differentiate their offerings effectively, thereby driving growth. Together, these theories provide a comprehensive framework for understanding the differentiation strategies utilized by SMEs and their impact on growth.

2.2 Conceptual Frame work

The conceptual framework visually represents the relationship between the dependent variable (growth of SMEs) and the independent variables (product differentiation strategy, personnel differentiation strategy, market focus innovation strategy, and factor innovation strategy). The conceptual framework illustrates how these variables interact and influence growth of SMEs in Makueni County, Kenya. The conceptual framework is provided in Figure 1.

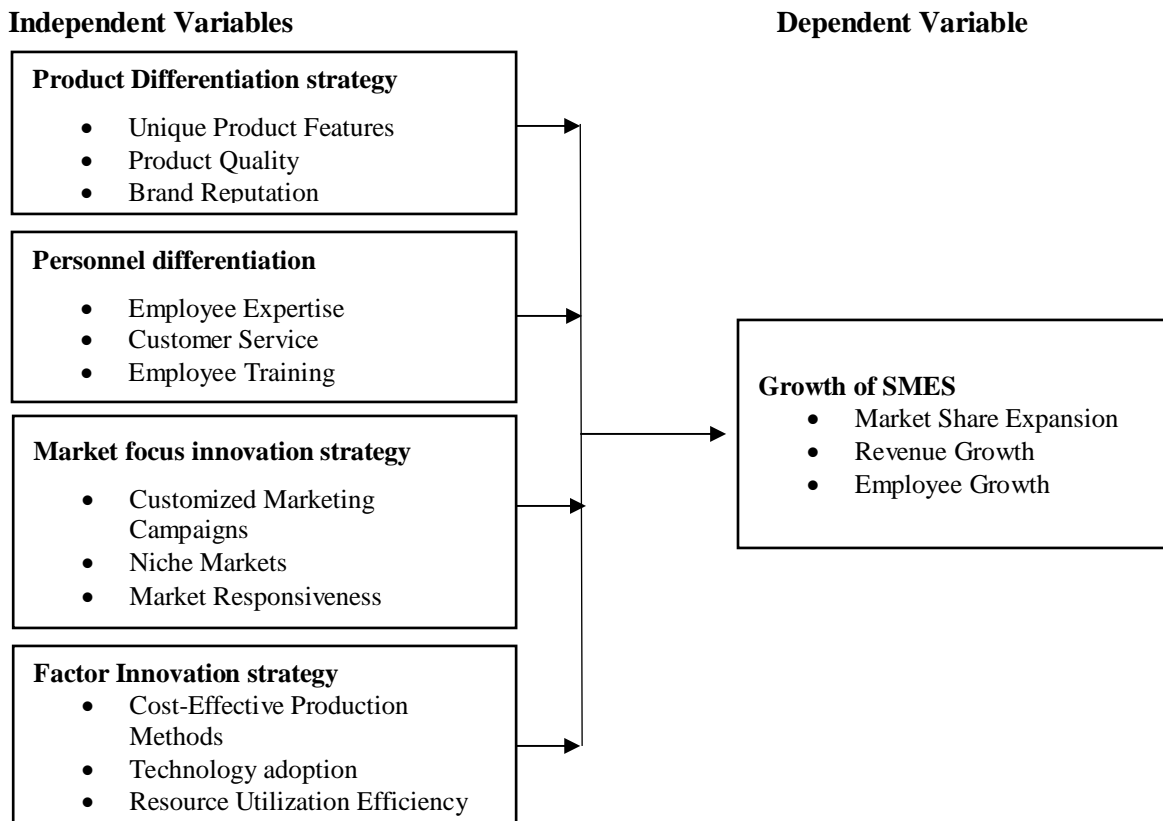


Figure 1: Conceptual Framework

2.3 Empirical Review

2.3.1 Product Differentiation Strategy and Company Growth

Several studies have investigated the impact of product differentiation on organizational performance, especially in the context of SMEs. For instance, Pulaj, Kume, and Cipi (2015) examined the effects of competitive strategies, including product differentiation, on organizational performance in Albania. Their study used data from 110 firms, collected via questionnaires. They found a positive relationship between product differentiation and performance metrics. However, this study primarily focused on competitive strategies' effects on financial performance rather than on growth specifically. Moreover, it was conducted within a global context, which contrasts with the localized focus of the current study in Makueni County, Kenya.

Mohsenzadeh and Ahmadian (2016) explored how competitive strategies influence the relationship between production capacity and performance among export firms in Iran. Using descriptive statistics and primary data collected through questionnaires, they discovered that competitive strategies, including product differentiation, mediated the relationship between production capacity and performance. Although their study contributes to understanding competitive strategies, it focuses on export firms rather than SMEs and uses competitive strategies as a mediating variable rather than directly linking them to SME growth. This presents a conceptual gap that the current study seeks to address by focusing on the direct impact of product differentiation strategies on SME growth in Kenya.

Prescott (2019) discussed firm performance in terms of the gap between standard and actual performance, emphasizing that positive differences signify better performance. Prescott argued that while much research has been directed at strategic management, there has been limited focus on how competitive strategies, particularly product differentiation, impact SME growth. This highlights a research gap in linking product differentiation strategies directly to SME growth, which the current study aims to fill by exploring how these strategies influence growth metrics in SMEs in Makueni County.

2.3.2 Personnel Differentiation and Growth of Companies

Neely, Gregory, and Platts (2015) conducted a study focusing on performance measurement, specifically evaluating internal processes that assess the effectiveness and efficiency of organizational actions. The study employed a quantitative methodology with a focus on metrics related to non-financial aspects such as customer satisfaction, loyalty, and brand image. The findings underscored the importance of these non-financial metrics, highlighting that customer satisfaction, developed over time, contributes significant financial value to SMEs. Satisfied customers are more likely to make repeat purchases, show less price sensitivity, and provide referrals, enhancing overall profitability. The study also emphasized that employee satisfaction is critical, particularly in the cooperative sector, where long-term retention of employees can lead to increased profitability. However, the study did not directly link personnel differentiation to SME growth.

Chiguvi et al. (2020) conducted a study in Botswana with the primary objective of exploring how personnel differentiation strategies could be employed by Private Tertiary Education Institutions to gain a competitive advantage. The research used a descriptive survey methodology to assess the extent to which these institutions had implemented such strategies. The findings indicated that while some personnel differentiation practices were in place, the institutions had not significantly distinguished themselves from their competitors. The study recommended that universities should focus on appealing to potential employers, hiring, training, and retaining skilled staff, and engaging in activities that enhance their credibility. Additionally, the study suggested that institutions should collaborate with key stakeholders and continuously seek ways to strengthen their competitive advantage through personnel differentiation. However, the research highlighted a gap in the need for more comprehensive strategies to fully achieve this differentiation and establish a stronger competitive edge.

Khan et al. (2019) aimed to explore the impact of personnel differentiation on organizational performance in the context of SMEs. They conducted a mixed-methods study, combining quantitative surveys and qualitative interviews with SME managers. The study focused on how various aspects of employee differentiation, such as specialized training, skills development, and employee engagement, influence organizational outcomes. The findings revealed that effective personnel differentiation, characterized by targeted skills development and high levels of employee engagement, significantly enhances organizational performance. Specifically, the study highlighted that SMEs with differentiated personnel strategies exhibited improved operational efficiency and customer satisfaction. However, the study was conducted in a different geographical context and primarily concentrated on performance metrics rather than growth aspects.

Mbugua and Kinyua (2019) sought to establish the effects of personnel differentiation strategy on the performance of deposit-taking microfinance institutions in Nairobi City County, Kenya. They employed a descriptive research design and gathered data from 123 microfinance institutions using a stratified random sampling technique. The study found a strong and positive relationship between personnel differentiation and organizational performance. The findings concluded that personnel differentiation significantly affects organizational performance. However, this study focused specifically on microfinance institutions and did not address the growth of SMEs.

2.3.3 Market focus Innovation Strategy and Company Growth

Wu, Lin, and Perng (2022) explored how Taiwanese SMEs establish and sustain better business performance and competitive advantage through their developing processes. The study utilized a literature review to identify six factors affecting firm performance and employed Nominal Group Technique (NGT) to gather insights. Fuzzy Set Qualitative Comparative Analysis (fsQCA) was then used to determine multiple cause-and-effect conditions impacting firm performance. The results proposed a model for evaluating SMEs' performance, offering a comprehensive approach to understanding the dynamics of business performance and competitive advantage in the Taiwanese SME context.

Rodrigues et al. (2022) conducted a study on *Operacional Têxtil Ltda*, a Brazilian textile systems automation enterprise serving the Latin-American textile industrial market. The research aimed to evaluate the company's strategic options for enhancing its market position. The main conclusions indicated that the enterprise could adopt one or more of the following strategies to gain a competitive edge: (a) become an innovative business process generator, (b) launch innovative products as a leading strategy, and/or (c) leverage technology-driven innovation to improve market penetration. These findings suggest that different strategic approaches could help the company strengthen its market presence and competitiveness.

Akingbade (2014) investigated the effects of competitive strategies on the growth of telecommunication firms in Nigeria. The objective of the study was to understand how various strategies employed by these firms influenced their growth trajectories. To achieve this, Akingbade analyzed the competitive strategies adopted by the telecommunication companies and assessed their impact on the firms' expansion and performance. The findings of the study indicated a positive relationship between the competitive strategies implemented by the telecommunication firms and their growth. This suggests that effective strategic approaches can significantly enhance the growth potential of such firms. However, the study had limitations. It was conducted specifically within the context of telecommunication firms in Nigeria, which means that its findings may not be directly applicable to other sectors, such as Small and Medium Enterprises (SMEs).

2.3.4 Factor Innovation Strategy and Company Growth

Hassion and Hart (2016) conducted a study to empirically test the determinants of small firm growth, focusing on the impact of exporting and innovation. They used cross-sectional data from 406 Egyptian firms collected between 2012 and 2013. Their analysis revealed that both exporting and innovation positively affected firm growth, with growth measured through sales, profits, market share, and employment size. However, this study

was conducted in Egypt, which may differ significantly from the local context of Kenya in terms of institutional, cultural, and economic factors. Thus, the gap in the local context needs addressing, which this study aims to explore by evaluating the influence of factor innovation on the growth of SMEs in Makueni County, Kenya.

Cassar and Friedman (2019) examined the impact of self-efficacy on entrepreneurial success. They utilized data from the Panel Study of Entrepreneurial Dynamics (PSED) and survey responses of 431 American entrepreneurs. Their findings demonstrated that higher entrepreneurial self-efficacy (ESE) improved the likelihood of being a successful entrepreneur and establishing a viable business. This study highlights the importance of individual self-belief in entrepreneurship but does not specifically address the role of factor innovation in SME growth. The current study seeks to fill this gap by exploring how factor innovation strategies influence the growth of SMEs, with a focus on the Kenyan context.

Kotler (2020) emphasized that product differentiation is crucial for innovation, asserting that products can vary in their potential for differentiation. He highlighted that while some products allow little variation, others are highly adaptable and open to innovation. Kotler's work underscores the importance of differentiating features such as product form, design, and performance. This perspective supports the view that innovation can drive competitive advantage. However, the focus on product features and their impact on profitability may not fully capture the broader role of factor innovation in organizational growth, a gap this study aims to address by examining how different aspects of factor innovation contribute to SME growth in Kenya.

Aaker (2019) outlined five key product innovation differentiation features: conformance quality, durability, reliability, reparability, and design. He emphasized that high conformance quality ensures that products meet promised specifications, while durability and reliability are valued attributes that can command higher prices. Reparability focuses on the ease of fixing products, and design offers a competitive edge in fast-paced markets. Aaker's insights into product innovation provide a foundational understanding of how differentiation can enhance performance. However, his study primarily addresses product features rather than their impact on overall organizational growth, which this study aims to explore by evaluating how factor innovation strategies influence SME growth.

III. METHODOLOGY

3.1. Research Design

Research design serves as the blueprint or guidance adopted by a researcher to achieve the study objectives. According to Akhtar (2016), a research design is the conceptual framework within which research is conducted, encompassing data collection, analysis, and presentation of findings. In this study, an explanatory research design was adopted, contrary to a descriptive approach initially considered.

An explanatory research design is suited for investigating causal relationships and understanding the reasons behind certain phenomena. Unlike descriptive research, which focuses on describing and drawing inferences about a phenomenon at a single point in time, explanatory research seeks to explain why and how such phenomena occur (Akhtar, 2016). This design is particularly relevant for studies that aim to explore causal relationships between variables, as evidenced by the study's objectives and data analysis methods.

3.2. Target Population

Asenahabi (2019) posit that a population comprises of all items that a researcher wishes to study. According to Gall and Borg (2010), the target population provides a solid foundation for the construction of population rationality in the study. The population for this study comprised of 1,890 small and medium enterprises registered and operating within Makueni County as at December, 2021. The unit of observation was the SMEs within the County. The firms were classified into trading, service and manufacturing and the distribution of the population is combined and is as shown in Table 2.

Table 1: Target Population

Category	Frequency	Percent
Trading	1340	71
Service	430	23
Manufacturing	120	6
Total	1890	100

Source: Department of Trade, Makueni County (2024)

3.3. Sample and Sampling Procedure

Ogula (2019) cites that selected subjects in the sample should represent the entire population. Sampling is the procedure of selecting subjects that can take part in the study. According to Kothari (2014), this sampling method entails targeting the respondents with the knowledge that the researcher wants to elicit. Therefore, because of their wide experience in management of these firms, the managers were targeted purposefully. The inclusion criteria were experience as a manager of the SMEs either in the service sector, manufacturing or trading sectors. Yamane (1967) formula was used in selecting the study sample size. This formula was best because the target population (N) is known.

Table 2: Sample size

Category	Target population	Sample Size
Trading	1340	200
Service	430	90
Manufacturing	120	40
Total	1890	330

Source: Researcher (2024)

3.4. Data Collection Method

Data for this study was collected using a structured questionnaire, which was chosen due to its various advantages. The questionnaire featured standardized questions and employed a five-point Likert scale to gauge respondents' attitudes. The scale ranged from 1 (strongly disagree) to 5 (strongly agree), allowing for nuanced responses and ease of quantitative analysis. The use of a structured questionnaire is beneficial as it is cost-effective and capable of gathering data from a large population efficiently. Furthermore, it facilitates the collection of quantitative data that can be readily analyzed using statistical techniques.

3.5. Validity and Reliability of Research Instrument

3.5.1 Validity of Research Instruments

Validity is the degree to which a research instrument measures what it is intended to measure (Oladipo, 2015). For this study, the focus was on content validity and face validity. Content validity examines whether the instrument thoroughly covers all aspects of the construct being studied (Gatara, 2010). To assess content validity, the researcher consulted experts in the field who reviewed the questionnaire to ensure it captured all relevant characteristics of the constructs and aligned with the study objectives. Face validity evaluates whether the instrument appears to measure the intended concept from a subjective perspective (Kothari, 2018). An expert in the subject matter reviewed the questionnaire to verify that it accurately measured the intended parameters and provided feedback for any necessary reorganization of the questions' structure, meaning, and order.

3.5.2 Reliability of Research Instruments

A research tool is reliable if its measurements accurately show the current scores of the parameters under study. Oladipo (2015) defines reliability as the extent to which a scale of measurement of a variable is current and produces results which are consistent on repeated trials holding other factors constant. According to Mohajan (2017) reliability measures consistency, repetition, precision and trustworthiness of a research tool. Mohajan (2017) cites that internal consistency estimates reliability by grouping items in a research instrument that measures synonymous concepts. For internal consistency for all Likert-type questions, a reliability test using the Cronbach Alpha model was computed. The Alpha can take any value from zero (no internal consistency) to one (complete internal consistency) where 0.7 is the acceptable limit (Tavakol & Dennick, 2011). The results are in Table 3.

Table 3: Table Cronbachs Alpha Reliability Coefficients

Instrument	Number of Items (N)	Cronbach's Alpha (α)	Interpretation
Product Differentiation	7	0.962	Reliable
Personnel Differentiation	7	0.931	Reliable
Market Focus Differentiation	7	0.936	Reliable
Factor Innovation	7	0.918	Reliable
Growth	6	0.913	Reliable

Source: Research Data (2024)

IV. FINDINGS & DISCUSSIONS

4.1 Effect of Product Differentiation Strategy on Growth of SMEs in Makeni County, Kenya.

The study sought to establish the effect of product differentiation strategy on the growth of SMEs in Makeni County, Kenya. Table 4 presents the results of this analysis, showing a strong positive impact of product differentiation on growth. The respondents generally agreed that product differentiation strategies contributed to business growth, as evidenced by the average mean score of 4.57 and a standard deviation of 0.653, indicating a high level of consistency in the responses. Specifically, the respondents agreed that the organization's product offerings are distinct from competitors due to unique features that cater to specific customer needs, as demonstrated by a mean score of 4.63 and a standard deviation of 0.62. This suggests that SMEs are successfully creating products that differentiate them in the market. Furthermore, the development of innovative features due to product differentiation was highly rated, with a mean of 4.56 and a standard deviation of 0.68, indicating that innovation plays a key role in setting these products apart from competitors. The respondents also strongly agreed that the product differentiation strategy consistently results in higher quality products compared to competitors, as shown by a mean of 4.55 and a standard deviation of 0.656. This highlights that differentiation is not just about uniqueness but also about delivering superior quality. Investments in product differentiation have significantly enhanced the overall quality of the organization's offerings, as indicated by a mean of 4.6 and a standard deviation of 0.625, reinforcing the notion that differentiation strategies lead to tangible improvements in product quality. Additionally, the organization's commitment to product differentiation has strengthened its brand reputation as a leader in quality and innovation, with a mean of 4.56 and a standard deviation of 0.68. This demonstrates the role of differentiation in building a positive brand image. Finally, the unique aspects of the organization's products have positively impacted its brand reputation, leading to increased customer trust and loyalty, as shown by a mean score of 4.53 and a standard deviation of 0.657.

Table 4: Descriptive Statistics of Product Differentiation Strategy

Statements	N	M	S.D
The organization’s product offerings are distinct from competitors due to unique features that cater to specific customer needs.	243	4.63	0.62
The product differentiation strategy has led to the development of innovative features that set the organization’s products apart in the market.	243	4.56	0.68
The product differentiation strategy has consistently resulted in higher quality products compared to competitors.	243	4.55	0.656
Investments in product differentiation have significantly enhanced the overall quality of the organization’s offerings.	243	4.6	0.625
The organization’s commitment to product differentiation has strengthened its brand reputation as a leader in quality and innovation.	243	4.56	0.68
The unique aspects of the organization's products have positively impacted its brand reputation, leading to increased customer trust and loyalty.	243	4.53	0.657
Average Score	243	4.57	0.653

Source: **Research Data (2024)**

Table 5 show that there is a strong positive relationship between product differentiation strategy and Growth of SMEs, with a correlation coefficient of $r = 0.773$ ($p = 0.000$). This suggests that an increase in product differentiation efforts is likely to result in enhanced growth for SMEs in Makueni County. The findings highlight that organizations focusing on unique product features are more likely to achieve better growth outcomes.

Table 5: Correlation Analysis of Product Differentiation Strategy (PDS) and Growth of SMEs in Makueni County

Variable	Pearson Correlation	Sig. (2-tailed)	N
Product Differentiation Strategy (PDS)	1		243
Growth of SMEs in Makueni County	0.773**	0.01	243

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

4.2 Effect of Personnel Differentiation Strategy on Growth of SMEs in Makueni County, Kenya

The analysis aimed to assess the impact of personnel differentiation strategy on the growth of SMEs in Makueni County, revealing a strong consensus among respondents on its significance. With an average mean score of 4.48 and a standard deviation of 0.691, the findings indicate that the strategy effectively addresses specific customer needs, enhances brand loyalty, and contributes to the quality of products offered. Notably, respondents agreed that the organization has successfully adopted this strategy (mean = 4.55, S.D. = 0.63) and that it plays a crucial role in differentiating products in the market (mean = 4.43, S.D. = 0.732). Additionally, the use of branding (mean = 4.58, S.D. = 0.672) and the ability to reduce substitution (mean = 4.35, S.D. = 0.736) further underscore the strategy's effectiveness. Overall, these insights highlight the importance of investing in personnel differentiation as a key driver for enhancing SME growth and competitive advantage in the region.

Table 6: Descriptive Statistics of Personnel Differentiation Strategy

Statements	N	M	S.D
The organization has adopted the personnel differentiation strategy	243	4.55	0.63
Personnel Differentiation strategy has helped in meeting specific customer needs	243	4.58	0.672
Differentiation strategy has helped the organization's products to stand out in the market	243	4.43	0.732
Personnel Differentiation strategy has created a brand loyalty among customers	243	4.54	0.657
Personal Differentiation strategy has helped in creating quality products	243	4.35	0.736

The company employs company branding to differentiate itself and products to customers	243	4.58	0.672
Personnel Differentiation strategy has ensured that the organization's products cannot be easily substituted	243	4.35	0.736
Average Score	243	4.48	0.691

Source: **Research Data (2024)**

The results in Table 7 reveals a significant positive correlation between personnel differentiation strategy and growth of SMEs, with a correlation coefficient of $r = 0.693$ ($p = 0.000$). This indicates that effective personnel differentiation—such as investing in staff training and development—can positively influence the growth of SMEs. The results underscore the importance of human capital in driving business success.

Table 7: Correlation Analysis of Personnel Differentiation Strategy and Growth of SMEs in Makueni County

Variable	Pearson Correlation	Sig. (2-tailed)	N
Personnel Differentiation Strategy (PRS)	1		243
Growth of SMEs in Makueni County	0.693**	0.01	243

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

4.3 Effect of Market Focus Innovation Strategy on Growth of SMEs in Makueni County, Kenya

The analysis focused on evaluating the impact of the market focus innovation strategy on the growth of SMEs in Makueni County, with respondents showing strong agreement regarding its effectiveness. The overall average score of 4.37 and a standard deviation of 0.695 indicate a positive perception of this strategy among the participants. Specifically, respondents noted that the organization has successfully adopted the Market Focus Innovation Strategy (mean = 4.38, S.D. = 0.69), which they believe contributes to lowering production costs by concentrating on a narrower market (mean = 4.31, S.D. = 0.721). Additionally, it was highlighted that this strategy enhances product quality (mean = 4.42, S.D. = 0.678) and fosters a stronger relationship with customers by tailoring brands to meet their needs (mean = 4.35, S.D. = 0.66). Respondents further agreed that the strategy cultivates a sense of brand loyalty among consumers (mean = 4.36, S.D. = 0.75) and helps the organization develop expertise about its offerings (mean = 4.38, S.D. = 0.69). Lastly, it was emphasized that the strategy enables the provision of superior products at competitive prices (mean = 4.42, S.D. = 0.678). These findings collectively underscore the significance of the Market Focus Innovation Strategy in driving growth and enhancing competitive advantage for SMEs in the region.

Table 8: Descriptive Statistics of Market Focus Innovation Strategy and Growth of SMEs

Statement	N	Mean (M)	Std Deviation (S.D.)
The organization has adopted the Market Focus Innovation Strategy.	243	4.38	0.69
Market Focus Innovation Strategy helps in lowering production costs because the organization focuses on a narrow market.	243	4.31	0.721
Market Focus Innovation Strategy has enabled the organization to provide higher quality products.	243	4.42	0.678
Market Focus Innovation Strategy has enhanced the relationship between the organization and its customers because brands are created to suit customer needs.	243	4.35	0.66
Market Focus Innovation Strategy makes consumers feel that a brand is created specifically for them, which builds loyalty over time.	243	4.36	0.75
Market Focus Innovation Strategy has enabled the organization to develop expertise about the goods and services that they offer.	243	4.38	0.69



Market Focus Innovation Strategy has enabled the organization to provide the best products at a better cost.	243	4.42	0.678
Average Score	243	4.37	0.695

Source: **Research Data (2024)**

The correlation analysis in Table 9 shows a robust positive relationship between market focus innovation strategy and growth of SMEs, with a correlation coefficient of $r = 0.836$ ($p = 0.000$). This implies that SMEs that innovate their market focus, such as targeting specific customer segments or adapting to market changes, are likely to experience substantial growth. The findings emphasize the significance of market-oriented strategies in achieving business objectives.

Table 9: Correlation Analysis of Market Focus Innovation Strategy and Growth of SMEs in Makueni County, Kenya

Variable	Pearson Correlation	Sig. (2-tailed)	N
Market Focus Innovation Strategy (MFIS)	1		243
Growth of SMEs in Makueni County	0.836**	0.01	243

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

4.4 Effect of Factor Innovation Strategy on Growth of SMEs in Makueni County, Kenya

The study sought to evaluate the factor innovation strategy's impact on SMEs in Makueni County. The findings show that respondents strongly endorsed the strategy as evidenced by an average score of 4.55 and a standard deviation of 0.656. This indicates a positive perception of the effectiveness of factor innovation in enhancing organizational performance. Notably, respondents affirmed that the organization has adopted factor innovation to bolster its product innovation strategy (mean = 4.63, S.D. = 0.62), reflecting a commitment to improving product offerings. Furthermore, the strategy was recognized for enhancing creativity within the organization (mean = 4.60, S.D. = 0.625), which is crucial for sustaining competitive advantage. Respondents also indicated that the factor innovation strategy ensures the production of market-attractive products (mean = 4.55, S.D. = 0.63) and facilitates the adoption of cost-effective production methods that reduce overall production costs (mean = 4.50, S.D. = 0.665). Additionally, the incorporation of technological advancements through factor innovation has significantly improved production processes and product offerings (mean = 4.58, S.D. = 0.67). Lastly, the strategy has optimized resource utilization, contributing to more efficient production processes (mean = 4.49, S.D. = 0.66). Collectively, these insights underscore the importance of factor innovation in driving operational efficiency and enhancing the market competitiveness of SMEs. The results are shown in Table 10.

Table 10: Descriptive Statistics of Factor Innovation Strategy on Growth of SMEs in Makueni County, Kenya

Statement	N	Mean	Std Deviation
Updated technical systems enhance electronic procurement	60	3.75	0.442
A stable ICT framework is pivotal for electronic procurement operations	60	3.69	1.641
Adequate ICT resources directly impact the electronic procurement process's productivity	60	3.78	1.167
There are guidelines for ICT infrastructure utilization.	60	4.88	0.743
ICT is seamlessly integrated into procurement procedures	60	4.72	0.114
Overall mean score		4.164	0.8214

Source: **Research Data (2024)**

The correlation analysis findings as shown in Table 11, revealed a positive correlation between Factor Innovation Strategy and Growth of SMEs, with a correlation coefficient of $r = 0.588$ ($p = 0.000$). This suggests that SMEs that invest in innovative factors, such as improved processes and technology, tend to experience positive growth outcomes. While the correlation is slightly lower than the other strategies, it still emphasizes the role of innovation in enhancing operational efficiency and driving growth.

Table 11: *Correlation Analysis of Factor Innovation Strategy on Growth of SMEs in Makueni County, Kenya*

Variable	Pearson Correlation	Sig. (2-tailed)	N
Factor Innovation Strategy (FIS)	1		243
Growth of SMEs in Makueni County	0.588**	0	243

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

4.5 Growth of SMEs in Makueni County

Descriptive analysis of the growth of SMEs in Makueni County indicates a positive perception of the impact of factor innovation on organizational growth, with an average score of 4.32 and a standard deviation of 0.755. Respondents largely agreed that factor innovation is integral to expanding market share, as reflected in the statement regarding the adoption of factor innovation for this purpose, which yielded a mean of 4.28 and a standard deviation of 0.736. Furthermore, participants acknowledged that the factor innovation strategy significantly contributes to revenue growth for the organization, as indicated by a mean of 4.30 and a standard deviation of 0.806. The perception that factor innovation enhances employee growth within the organization was also strongly supported, with a mean of 4.45 and a standard deviation of 0.793. Additionally, respondents believed that this strategy ensures the organization targets profitable market segments, aiding market share expansion (mean = 4.35, S.D. = 0.811) and addresses unmet customer needs to generate revenue growth (mean = 4.23, S.D. = 0.77). Lastly, the view that factor innovation facilitates employee growth by meeting new customer needs and expanding market reach received a mean score of 4.28 with a standard deviation of 0.736. Overall, these findings emphasize the crucial role of factor innovation in driving growth within SMEs in Makueni County. The results are presented in Table 12.

Table 12: *Descriptive analysis of Growth of SMEs in Makueni County*

Statements	N	M	S.D
The organization has adopted factor innovation to enhance its market share expansion.	243	4.28	0.736
Factor innovation strategy has contributed to significant revenue growth for the organization.	243	4.3	0.806
Factor innovation strategy has led to an increase in employee growth within the organization.	243	4.45	0.793
Factor innovation strategy ensures that the organization targets profitable market segments, aiding market share expansion.	243	4.35	0.811
Factor innovation strategy helps in generating revenue growth by addressing unmet customer needs.	243	4.23	0.77
Factor innovation strategy has facilitated employee growth by meeting new customer needs and expanding market reach.	243	4.28	0.736
Average Score	243	4.32	0.755

Source: Research Data (2024)

4.5.1 Regression Analysis on Elements Influencing Growth of SMEs in Makueni County

The researcher performed regression analysis to find out the influence of product differentiation, personnel differentiation, market focus innovation, and factor innovation strategies on SMEs growth in Makueni County. Regression coefficients shows that product differentiation, personnel differentiation, market focus innovation, and factor innovation strategies predicts the SMEs growth in Makueni County. There is a strong linear relationship between independent variables and the dependent variable, according to the results of the linear regression, which show $R^2 = 0.743$. The independent variables explained 74.3 % of the variability of dependent variable.

Table 13: Model Summary of Elements Influencing Growth of SMEs in Makueni County

Model	R Square	Adjusted R Square	Standard Error of Estimate
1	0.747	0.743	0.328

- a). Predictors (Constant), product differentiation, personnel differentiation, market focus innovation, factor innovation strategies
- b). Growth of SMEs in Makueni County

The researcher conducted the analysis of variance (ANOVA) to assess the significance of the regression model regarding the factors influencing the growth of SMEs in Makueni County. For a regression model to be deemed significant, the F-significance value (p) must be less than 0.05, indicating a confidence level exceeding 95%. From Table 14, the results of the ANOVA test reveal that product differentiation, personnel differentiation, market focus innovation, and factor innovation strategies significantly predict the growth of SMEs in Makueni County, $F(4, 238) = 175.85$, $p < 0.001$, $R^2 = 0.743$. This suggests that the independent variables together provide a robust model for understanding the growth dynamics of SMEs in the region.

Table 14: ANOVA of Elements Influencing Growth of SMEs in Makueni County

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	75.74	4	18.935	175.85	.001(a)
	Residual	25.627	238	0.108		
	Total	101.367	242			

- a). Predictors (Constant), product differentiation, personnel differentiation, market focus innovation, factor innovation strategies
- b). Growth of SMEs in Makueni County

4.5.2 Regression Coefficients of Elements Influencing Growth of SMEs in Makueni County

From the analysis in Table 15, public procurement regulations X_1 ($\beta = 0.325$, $p < 0.05$) has the strongest positive relationship with SME growth in Makueni County, followed by market focus innovation strategy X_3 ($\beta = 0.489$, $p < 0.05$). Personnel differentiation strategy X_2 ($\beta = 0.140$, $p > 0.05$) and factor innovation strategy X_4 ($\beta = 0.110$, $p > 0.05$). It was found that all the independent variables had positive significant relationship with growth of SMEs in Makueni County.

Table 14: Regression Coefficient Results

Constant	Unstandardized Coefficient		Standardized Coefficient β	t	Sig.
	β	Std Error			
	1.756	0.329	-	5.337	0.000
Product Differentiation Strategy	0.325	0.061	0.296	5.337	0.000

Personnel Differentiation Strategy	0.140	0.062	0.117	2.262	0.025
Market Focus Innovation Strategy	0.489	0.077	0.446	6.344	0.000
Factor Innovation Strategy	0.110	0.042	0.115	2.607	0.010

a). Predictors (Constant), product differentiation, personnel differentiation, market focus innovation, factor innovation strategies

b). Growth of SMEs in Makueni County

The established regression equation was therefore formulated as below;

$$Y = 1.756 + 0.325X_1 + 0.140X_2 + 0.489X_3 + 0.110X_4 + \varepsilon$$

This equation shows that holding the factors (product differentiation strategy, personnel differentiation strategy, market focus innovation strategy, factor innovation strategy) constant, the expected baseline growth of SMEs in Makueni County would be 1.756%. Holding other factors at zero, a unit increase in product differentiation strategy is associated with approximately a 32.5% increase in SME growth. Similarly, holding all other factor at zero, adherence to personnel differentiation strategy would lead to a 14.0% increase in SME growth. Additionally, the equation shows that adherence to market focus innovation strategy, while holding other factors constant, results in an impressive 48.9% increase in SME growth. Finally, with all other factors held at zero, an increase in factor innovation strategy would lead to an 11.0% increase in growth of SME in Makueini County, Kenya. Through this regression model, it can be ascertained that the greatest contributor to the success of the market focus innovation strategy is the most significant contributor to the growth of SMEs in Makueni County, accounting for approximately 48.9% of the growth observed. This is followed by the product differentiation strategy (32.5%), the personnel differentiation strategy (14.0%), and lastly, the factor innovation strategy (11.0%).

4.6 Discussion

4.6.1 Product Differentiation Strategy and Growth

The study revealed a significant positive relationship between product differentiation strategy and business growth. Respondents emphasized the importance of distinguishing their products to stand out in a competitive market, with an average score indicating a high level of agreement regarding its effectiveness. This finding indicates that implementing effective product differentiation strategies contributes positively to business growth by enhancing customer preference and brand loyalty. The analysis showed that product differentiation explains a notable portion of the variability in business growth, suggesting that businesses prioritizing product uniqueness are better positioned to capture market share and experience growth. This is consistent with previous research, such as the study by Pulaj, Kume, and Cipi (2015), which analyzed competitive strategies and organizational performance in Albania. They found a positive link between differentiation strategy and performance, echoing the current study's localized findings in Kenya. Furthermore, Prescott (2019) posited that firm performance is a result of evaluating the difference between standard and actual performance, reinforcing the notion that differentiation strategies can enhance performance and, consequently, growth. Despite existing literature focusing on strategic management, Prescott noted a gap in examining the relationship between competitive strategies and SME growth, a gap this study addresses by highlighting the positive linkage between product differentiation and growth.

4.6.2 Personnel Differentiation Strategy and Growth

The analysis demonstrated a positive effect of personnel differentiation strategy on business growth. Respondents recognized the value of differentiating their workforce through skills and expertise, which enhances service delivery and customer satisfaction. With an average score reflecting strong agreement on its effectiveness, this finding underscores the importance of investing in employee development and fostering a skilled workforce to drive organizational success. Well-trained employees who provide superior customer service gain a competitive advantage, translating to increased performance through customer satisfaction. This aligns with Kotler (2020), who discussed the role of personnel differentiation in enhancing brand loyalty and product quality. Additionally, Neely,

Gregory, and Platts (2015) suggested that in the SME cooperative sector, employee satisfaction is vital, leading to long-term retention and increased profitability. These insights reinforce the current study's findings, indicating that organizations that meet employee needs through skills and knowledge directly contribute to growth. Furthermore, Mbugua, and Kinyua (2019) identified various factors essential for employee differentiation, such as unique skills, positive behavior, and communication skills, which are crucial for overcoming competitive pressures. Overall, the findings suggest that a strong personnel differentiation strategy is integral to achieving sustainable growth in SMEs.

4.6.3 Market Focus Innovation Strategy and Growth

The study established a positive relationship between market focus innovation strategy and business growth. Respondents indicated that a strong focus on market trends and customer needs leads to innovative solutions that drive business success, as reflected in the average score on the effectiveness of market innovation strategies. This finding highlights the importance of aligning products and services with market demands to achieve sustained growth. The results suggest that businesses that prioritize market-focused innovation are more adept at adapting to changes in the competitive landscape, thus positioning themselves for long-term success. These findings resonate with Akingbade (2014), who highlighted the critical role of market innovation in driving growth among telecommunication firms in Nigeria. Although Akingbade's study focused on a different sector and context, the positive relationship observed between market innovation strategies and firm growth parallels the results in the current study conducted in Makueni County, Kenya. Additionally, the concept of dynamic capabilities introduced by Teece and Pisano (2009) is pertinent, as it emphasizes the need for firms to develop, deploy, and protect their specific resources to adapt to changing environments. The study's results underscore the strategic importance of market focus innovation as a key driver of growth, reflecting the broader relevance of innovative practices across diverse contexts.

5.4 Factor Innovation Differentiation Strategy and Growth

The study indicated a positive effect of factor innovation strategy on business growth. Respondents acknowledged the importance of leveraging innovative processes and technologies to enhance operational efficiency and product quality, as shown by the average score indicating a high level of agreement on the impact of factor innovation. This finding suggests that businesses that focus on factor innovation can improve their performance by optimizing resources and reducing costs, ultimately leading to increased competitiveness in the market. These findings resonate with Cheng and Krumwiede (2012), who emphasized the critical role of factor innovation in enhancing performance. Similarly, Hassion and Hart (2016) found a positive influence of innovation on firm growth in their study of Egyptian firms, highlighting the universal relevance of factor innovation in driving SME growth. Furthermore, Aaker (2019) identified key elements of product innovation differentiation, including conformance quality and durability, which underscore the role of innovation in improving product quality and fulfilling customer expectations. The emphasis on the relationship between product quality and return on investment supports the current study's findings, illustrating that factor innovation not only drives growth but also contributes to overall business success through improved product offerings and operational efficiencies.

V. CONCLUSION & RECOMMENDATIONS

5.1 Conclusion

This study aimed to investigate the relationship between competitive strategies and the growth of small and medium-sized enterprises (SMEs) in Makueni County, Kenya. The findings provide compelling evidence that various competitive strategies significantly influence business growth. Specifically, product differentiation, personnel differentiation, market focus innovation, and factor innovation strategies emerged as crucial elements that positively impact the performance and sustainability of SMEs in the region.

The results demonstrate that businesses that prioritize product differentiation not only enhance their market presence but also foster customer loyalty and retention. This aligns with existing literature, indicating that unique product offerings are vital for SMEs striving to compete effectively in an increasingly crowded marketplace. Furthermore, the emphasis on personnel differentiation highlights the importance of investing in human capital as a driver of growth. Skilled and knowledgeable employees are instrumental in delivering high-quality services and products, ultimately leading to improved customer satisfaction and business performance.

The study also underscores the significance of market focus innovation. SMEs that actively engage with market trends and customer preferences are more likely to innovate and adapt, positioning themselves favourably against competitors. This finding reinforces the necessity for businesses to remain agile and responsive to changing market dynamics, which is crucial for sustained growth.

Lastly, the positive correlation between factor innovation and business growth emphasizes the need for SMEs to leverage technological advancements and optimize their operational processes. By enhancing efficiency and product quality through innovation, businesses can reduce costs and improve their competitiveness in the market.

Overall, this research highlights the integral role of competitive strategies in driving SME growth in Makueni County, Kenya. It calls for stakeholders, including policymakers, business owners, and support organizations, to foster environments that encourage strategic planning and innovation. By investing in these competitive strategies, SMEs can better navigate the challenges of the business landscape, ultimately contributing to economic development in the region. Future research should explore the long-term effects of these strategies and consider additional factors that may influence SME growth in different contexts.

5.2 Recommendations

Based on the findings of this study, several recommendations are proposed to enhance the growth of small and medium-sized enterprises (SMEs) in Makueni County, Kenya. These recommendations aim to guide stakeholders, including business owners, policymakers, and support organizations, in fostering an environment conducive to SME growth through effective competitive strategies.

SMEs should invest in research and development to create unique products or services that stand out in the market. This can involve understanding customer needs and preferences through market research and engaging in innovation to improve product features. Workshops and training sessions focused on product development and differentiation strategies can also be beneficial for SME owners and employees.

Given the significant impact of personnel differentiation on business growth, SMEs are encouraged to prioritize employee training and development. Organizations should implement continuous training programs that enhance the skills and knowledge of their workforce. This investment not only improves service delivery but also boosts employee satisfaction and retention, contributing to overall organizational performance.

SMEs should adopt a proactive approach to market focus innovation by regularly assessing market trends and consumer demands. Establishing feedback mechanisms to capture customer insights can help businesses refine their offerings and stay relevant in a competitive environment. Collaborating with industry experts and engaging in knowledge-sharing initiatives can also facilitate innovation.

SMEs must leverage technology to enhance operational efficiency and product quality. This includes adopting new technologies, improving production processes, and optimizing resource management. Business owners should consider partnerships with technology providers and seek funding opportunities for technology adoption and innovation initiatives.

Policymakers are encouraged to create a supportive regulatory framework that fosters SME growth through competitive strategies. This includes developing policies that promote access to financing for innovation and providing incentives for businesses that engage in product differentiation and innovation. Additionally, training and capacity-building programs should be integrated into government initiatives to equip SMEs with the necessary skills to implement competitive strategies effectively.

SMEs should be encouraged to form networks and collaborate with each other, industry associations, and research institutions. Networking can lead to shared resources, knowledge exchange, and collective problem-solving, enabling SMEs to innovate and grow together. Local chambers of commerce and industry associations can play a pivotal role in facilitating such collaborations.

5.3 Further Research

Future studies should consider longitudinal analyses to assess the long-term effects of these strategies and explore the unique factors influencing SME growth in different sectors and regions within Kenya.

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