

**INFLUENCE OF HYBRID STRATEGY ON SMALL & MICRO ENTERPRISES (SMES)
PERFORMANCE: A SURVEY OF ELECTRONICS FIRMS IN MACHAKOS TOWN, MACHAKOS
COUNTY, KENYA**

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Abstract: *The purpose of this study was to investigate influence of hybrid strategy on the performance of Small & Micro Enterprises (SMEs). This study focused electronics firms in Machakos Town, Machakos County, Kenya. A mixed research design was employed, where qualitative and quantitative data was collected and used. The target population comprised of all the 40 electronics outlets obtained as per the record of Machakos county Single Business Permit licensing office. The study respondents were 40 managers or owners drawn from the electronic retail shops in Machakos town CBD and residential estates. The questionnaire was the main data collection instrument. A pilot test was conducted to provide proxy data for selection of a probability sample and detect weaknesses in design and instrumentation. A multiple regression analysis was employed to establish the nature and magnitude of the relationship between the hybrid competitive strategy and performance of electronics SMEs. The study findings established that key success factors for the implementation of hybrid strategies are innovative strength, close orientation towards customer needs and organizational learning. The study findings indicates that adoption of singular generic strategy is insufficient in today's competitive and dynamic market environments. Increase in competition, changing products cost factor, effects of globalization as well as changing customer expectations require firms to adopt a multidimensional strategic approach. Hybrid strategy that integrates cost and differentiation advantages represents a way for firms to respond to these changes in the competitive environment in a more flexible and effective approach and hence remain competitive.*

Keywords: *Customized product, Hybrid strategy, Small & Micro Enterprises, Superior customer*

INTRODUCTION

Background of the study

Both small and established mega businesses across the world continuously experience stiff competition within their operating business environment due to globalization and market liberalization. Businesses therefore face challenges that require regular monitoring and evaluation of their strategic management. Success or failure of any business organization largely depends on its capability to formulate and implement a sustainable strategy that gives it advantaged opportunities to minimize threats towards achieving its organizational objectives within its evolving and turbulent market. To achieve this competitive advantage, business owners and managers seek to formulate and implement competitive strategies. The goal of every competitive strategy is to achieve sustainable competitive advantage (Salvador Vivas Lopes, 2005, Stalk & Lachenauer, 2004). Strategy formulation and implementation is key to success of any organization. Formulation and implementation of

competitive strategy enables organization's management to remain committed in pursuing a particular set of actions to grow its revenue, customer base, market share and performance. Established organizations are known to put in huge amount of resources in formulating competitive strategies and an equal amount of focused energy in implementation of these strategies. However, SMEs which are considered as economic backbone of every country face the greatest challenges in formulation and implementation competitive strategy.

The dividends of healthy competitive strategies are paid in form of impressive performance indicators which include, ability to attain a set of business goals, ability to cost effectively secure the scarce but valued resources within its operating environment and efficient human resource management. For a sustained competitive performance, a business needs to have a proactive approach to business plan (Pearce & Robinson, 2007). Various theories explain different approaches that businesses adopt to achieve and sustain competitiveness. The existence of different theoretical approaches means there is no single best approach to manage a business. The Michael porter's generic strategies model fronts 3 different strategies to attaining competitive advantage. These strategies are low cost leadership, differentiation and focus strategies (Porter, 1998). These competitive strategies were initially developed for and applied by formal medium and large organizations which required human skills and resources for strategic planning.

Small and micro enterprises, SMEs are defined by a number of factors and criteria, such as location, size, age, structure, organization, number of employees, sales volume, worth of assets, ownership through innovation and technology (Rahman, 2001). In Kenya Small and Micro Enterprises (SMEs) are firms employing between 1 and 49 employees. A micro enterprise employs 1 to 9 employees while a small enterprise employs 10 to 49 employees (GoK, 2005). Small, medium and micro enterprises are considered backbone of economic growth in all countries. In both developed and developing countries, SMEs provide income and livelihood to majority of people while supplying goods and services to larger organizations. Pandya (2012) observe that Taiwan and Japan high economic growth is guided by dynamic Small and medium enterprises sector. In developing African countries, small enterprises are engines of economic growth and employment in (Vijayakumar, 2013). According to Nendakulola, (2015) small enterprises contribute to over 90% of African business activities and create over 50% of African employment. According to ILO (2000) the SMEs in Sub-Saharan Africa (SSA) operate small scale business whose activities have no division between capital and labor.

In Kenya, SMEs create 80% of total employment and contribute to approximated 18% of the nation GDP (Kithae, 2012). Besides creating jobs, Kachembere (2011) noted that small enterprises are playing pivotal role in promoting grassroots economic growth and equitable sustainable development. Muriithi et al., (2012) observes that about 33% of value addition on manufacturing and retail trade in Kenya is done by SMEs. This hence mean the enormous contribution by SMEs to the entire economy cannot be overlooked (Mbogo, 2011). SME sector has been credited for its vital role in alleviating poverty through generation of employment, embracing, innovation, provision of alternative goods/services and enhancing competition as reported by Economic Survey (2017). SMEs are known to spur economic activities outside urban areas where big enterprises are largely concentrated thereby providing solutions to uneven development and reduce rural urban migration (Blackburn, 2016). According to National Baseline Survey (1999) Kenya had 1.3 million SMEs employing 2.4 million people. At the county level, according to Business Daily (2012), SMEs create direct and indirect jobs especially for the youthful population dispelling the myth that only formal employment can provide a source of livelihood. The taxes and other levies paid by individual SME once pooled together contribute significantly to the annual development and recurrent budgets for counties and central governments. To underscore the importance of SMEs in Kenya, Small and micro Enterprise Act of 2012, provides for new rules and institutions to promote SMEs including office of the Registrar of SME, tribunal for conflict resolution

and SME Fund. The Act also provides for the establishment of the SMEs Authority, a platform for promoting entrepreneurship culture and formalization of SMEs.

A survey by the Kenya National Bureau of Statistics (KNBS,2017) indicates that approximately 400,000 micro and small enterprises do not celebrate their second birthday and few reach their fifth birthday raising concerns on sustainability of this critical sector. Arasti, Zandi, & Bahmani (2014) observed that in spite of the critical economic importance of SME sector, all small enterprises across the world face common challenges which threaten their survival and weaken their performance. According to Kiveu & Ofafa (2013) common SMEs challenges include; limited access to resources and limited market access for their products, limited access to information and skills, unfavorable legal policy and regulatory environment. This study therefore investigated competitive strategies practiced by SMEs in Machakos town and how this influence the performance of SMEs retailing electronics products and services in Machakos Town, Machakos County.

Statement of the Problem

In the recent years, SMEs have encountered new competition from formal established large firms whose activities have infiltrated into niche markets once considered as a preserve for SMEs (Ntakobajira, 2013). Majority of SMEs offering electronics wares and services operate small sized shops/stores with limited display space for their products and accessories. More competition has emerged from online shopping malls, some having established local offices, have aggressive marketing and sales teams targeting social media users who form the bulk of middle income earners in Machakos town. Development and use of competitive strategies plays a crucial role in the enhancing performance of SMEs while combating pressure from industry competition. Several studies have been carried out to investigate the influence of adoption of competitive strategies on SMEs' performance (Muthoni, Severina, 2018; Karanja, 2015; Isaboke, 2018; Kariuki, 2018; Ogot, 2014). However, these studies focus on competitive strategies practiced by general SME sector and little attention has been given to the influence of competitive strategies on performance of SMEs, in particular the electronics products and services outlets in Machakos town.

This study sought to investigate how practice of competitive strategies influences performance of SMEs retailing electronics products and services and operating within Machakos town. It is envisaged that findings of this study will inform practical and performance enhancing strategies in the wake of the increasing competitive business environment.

Objectives of the Study

This study set out to examine the influence of hybrid strategy on the performance of small & micro enterprises (SMEs) drawn from the electronics firms operating in Machakos Town. The specific objectives were to: examine the influence of cost customized product, creating new market segment, superior customer service and reduced product retail prices on the performance of small and micro-enterprises (SMEs) in Machakos Town, Machakos county.

LITERATURE REVIEW

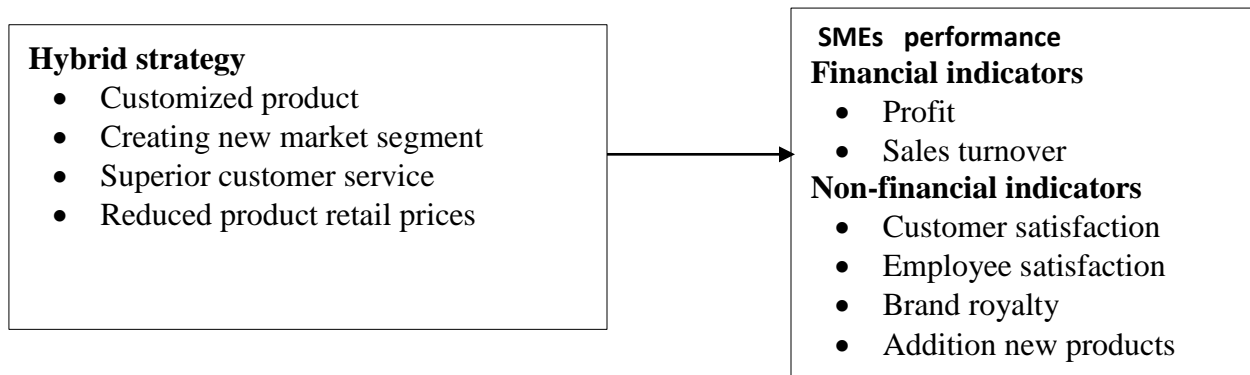
Porter's Generic Competitive Strategies

Porters (2007) came up with generic competitive strategies useful to counter the market competitive forces. According to Michael Porter the three main types of competitive strategies which make an organization attain competitive advantage within their competitive environment are: cost leadership, differentiation and Customizing Product. To achieve competitive advantage a firm creates a value for its buyers that exceed the

firm's cost of creating it (Tanwar, 2013). Organizations achieve competitive advantage by making an informed choice on the type and scope of their competitive advantage strategies. Porter’s generic strategies are useful in determining business strategic positions at the simple and broad level of organization scope. The choice of a competitive strategy by a firm is guided by different external forces prevailing within its business environment.

Hybrid strategy (Differentiation Cost Leadership mix) and SMEs performance Businesses operating in low-profit potential industries also become successful through integration of both the cost leadership and differentiation strategies (Hall,1980).This integrated strategy enables the small firms gain a high levels of customer loyalty, which in turn insulates them from potential competition (Barney, 2014). Leitner and Guldeberg (2010) conducted a study on effect of traditional generic strategies of cost-efficiency and differentiation on performance on small and medium enterprises in Australia. The study examined performance of SMEs with no clear strategy and those using combination of strategies. The result of the study revealed that SMEs adopting combination strategies outperformed companies employing stand-alone low cost or differentiation strategies in profitability and growth.

Oyedijo (2012) did a study on impact of adoption of competitive strategies on 92 paint manufacturing SMEs performance in Southwestern Nigeria. Firms’ performance measurement was based on three parameters including; profit growth, sales growth and customer complaints. Using collected data, the SMEs were grouped together based on their strategy orientations; differentiation (28) low cost (33) and hybrid strategies (31). Results of data analysis revealed a significant difference between the performances of SMEs using standalone strategies (differentiation or low cost) and firms using the two mixed strategies. The study found adoption of mixed strategies gave SMEs strategic flexibility leading to superior performance as opposed to stand alone strategies.



METHODOLOGY

This study employed a mixed research design (Creswell,2009) where both qualitative and quantitative data was collected and used to describe the influence of competitive strategies on SMEs performance. Descriptive survey research design is most suitable since it is economical and efficient. Use of questionnaires in the study enable efficient and economical collection of large amount of data from a sizeable population. The study employed a total population census sampling technique. The choice of census sampling approach was guided by various reasons including; need to increase the accuracy of results and easy accessibility of population elements.

The target population consisted of the 40 electronics outlets obtained from Machakos county Single Business Permit licensing office and which are operating within Machakos town and its environs. The respondents of this study were 40 managers or owners of the targeted electronic retail shops in Machakos town CBD and

residential estates as shown in table below. The study used questioners to collect primary data. Questionnaires are effective tools used to collect data from available respondents who are willing to co-operate (Saunders et al, 2016). This study also obtained secondary data from literature including published journals, and other documents with information relevant to this study. The collected quantitative data was coded and entered into Statistical Packages for Social Sciences (SPSS Version 24.0) and analyzed using descriptive statistics. Use of Statistical packages software aid researcher in statistical data exploration and analysis. The study conducted a multiple regression analysis to establish the nature and magnitude of the relationship between the competitive strategies and performance of SMEs in Machakos town. The multiple regression analysis helped pick weight that the independent variables (competitive strategies) had on dependent variable (SMEs performance).

RESULTS AND DISCUSSION

Response Rate

The results indicated that out of 40 questionnaires administered, 38 were completed and returned constituting to 95.0% response rate. The commendable 95% response rate was sufficient to draw study implications based on research objectives.

Demographic information

Majority of the respondents (62.2%) were male while 37.8 % were female. This implies that more men are involved in running of electronics firms in Machakos town. Also it was noted that majority of the respondents had a secondary school as highest level of education, followed by those with university qualification at 65.8% and 23.7% respectively while primary school education level were 10.5%. This implied that majority of the respondents who provided required information to carry out this research had secondary school qualification indicating they understood well customer needs and market dynamics. Of those who responded, 7.9% had operated for less than a year, 21.1% between 1- 2 years, 26.3% between 3- 5 years, and majority 38.9 % between 6-8 years with only 15.9% having worked for period of more than 9 years. This implied that the majority of the respondents understood well key competition strategies to have survived in competitive Machakos county business.

Further it was revealed that of those responding, mobile phone and mobile phone accessories sales, sales of household electronic goods, mobile phones repair services and repair and services of household electronic equipment's constituted 39.5 %, 34.2%, 15.8% and 10.5% respectively. This was an indication that majority of the SMEs in Machakos County were in mobile phone and house hold electronics business an indication that key competitive strategies must be used for their growth and long term survivor.

Descriptive Statistics Results - hybrid Strategy

Descriptive statistics are a set of brief descriptive coefficients that summarizes a given set of data, which can either be a representation of the entire population or a sample. The measures used to describe the data set are measures of central tendency and measures of variability or dispersion.

The respondents were asked to indicate the extent to which the various factors of hybrid strategy affect performance of SMEs in Machakos Town. The study findings indicated that the SMEs should focus on improving on customer service and after sale service so as ensure customer complain and complements are handled correctly and on time had (having a mean score of 3.53 and standard deviation of 0.82). The study

findings showed that offering low retail product prices and discounts increased market share which was supported by mean of 3.95 and standard deviation of 1.12.

The study findings further revealed that respondents moderately concurred that offering both high-end and low-end customized products and services enabled SMEs to offer diversified products and services without customer discrimination hence increased sales (with a mean score of 3.53 and standard deviation of 0.68). The study also revealed that practicing hybrid strategy or combined strategy influences performance of SMEs business through reaching different customers base and needs which in turn allows for customer repeat visits hence boasting sales (having a mean score of 3.95 and standard deviation of 1.12). This implies that pursuant of simultaneous low Cost and Differentiation approaches is fundamental for the short-term performance and long-term survival of the SMEs operating in a dynamic market environment. The study findings were consistent with finding of Oyedijo (2012) that adoption of mixed strategies gave SMEs strategic flexibility leading to superior performance as opposed to single standalone strategies.

Descriptive statistics Results - Performance of Small and Micro Enterprises (SMEs)

The study sought the extent to which the SMEs relate with the stated indicators on their performance. These indicators include reduction in operation costs, annual/monthly sales turnover, number of clients served monthly/annually, the net profit realized per month or per year, customer satisfaction, employees turnover, new products or services and market share size. The results indicated Micro & Small trading enterprises in Machakos Town registered an increase in profitability level due to implementation of generic competitive strategies practices systems from which 40.00% of the respondents agreeing and 40.00% of respondents strongly agreeing .

The level of operating cost reduction in Micro & Small trading enterprises with 27.69% of the respondents were neutral 43.08% of the respondents agreed and 20.00% of the respondents strongly agreeing. The study indicated that generic competitive strategies in Micro & Small trading enterprises in Machakos Town registered an increase in market share due to diversifying customer needs focused customer services and products with 50.77% of the respondents agreeing and 18.46% of the respondents strongly agreeing with 3.08% of the respondents disagreed. This implied that to reduce operating costs, SMEs need to standardize the product and achieve a humongous output. This reduces the overheads and spreads fixed costs throughout. The study findings were in line with those Ndungu, (2018) that to maintain SMEs performance over the value chain, the firm should achieve control over all functional groups like procurement, finance, and inventory.

Table 1: Performance of Small and Micro Enterprises (SMEs)

Performance indicators	1	2	3	4	5
Annual/monthly sales turnover	1.54%	9.23%	9.23%	40.00%	40.00%
Number of clients served monthly/Annually	3.08%	9.23%	7.69%	53.85%	26.15%
Cost reduction per month or per year	4.62%	4.62%	27.69%	43.08%	20.00%
Customer satisfaction	4.62%	10.77%	29.23%	36.92%	18.46%
Employees turnover	4.62%	6.15%	24.62%	49.23%	15.38%
New products or services	3.08%	6.15%	9.23%	47.69%	33.85%
Market share size	3.08%	9.23%	18.46%	50.77%	18.46%

Regression Analysis Results

The study found in the table below that, the R Square, which is the coefficient of determination used to measure the dependent variable variations and their effect on the dependent variables had a value of 0.559. The R Square has value between 0 and Analytically, this shows that 55.9% of variations in the dependent variable can be explained by the independent variables. This mean that 55.9% of variation in performance of Small and Micro Enterprises (SMEs) is explained by Customized Product, Market Segment, Superior customer and Product Retail Prices, while the remaining 44.1% is associated with factors that are not within the scope of this study. This study hence identifies these four variables as important generic competitive strategies of which determine Performance of Small and Micro Enterprises (SMEs).

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.748a	.559	.506	.610

a. Dependent Variable: Performance of Small and Micro Enterprises (SMEs)

b. Predictors: (Constant) Cost Leadership Strategy, Market Segment, Product Retail Prices, Customizing Product

Anova Results

F Test was done through one way Anova to test the effect of all the independent variables on the dependent variable in a simultaneous manner. From a statistical perspective, the F-Test is done to determine whether there is a joint effect of independent variable on the dependent variable. The results of the Anova test are presented in the table 3 below. The critical value for the analysis was 2.257 commutated through the use of k-1 numerator (4) and N-k denominator (37) degrees of freedom. The F value calculated was 23.054 which is greater than the F Critical Value 2.257, additionally, the significance value obtained is 0.000, which is less than the set value of 0.05.; Owing to the fact that the F value is greater than the critical value, and the significance level is lower than the set level, it can be concluded that Customized Product, Market Segment, Superior customer and Product Retail Prices on the Performance of Small and Micro Enterprises (SMEs)

Table 3: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	22.249	4	5.562	23.054	.000 ^b
	Residual	7.962	33	.241		
	Total	30.211	37			

a. Dependent Variable: Performance of Small and Micro Enterprises (SMEs)

b. Predictors: (Constant), Customized Product, Market Segment, Superior customer and Product Retail Prices

Beta Coefficients

The established regression equation was

$$Y = 1.746 + 0.280X_1 + 0.296 X_2 + 0.221X_3 + 0.517X_4 + \epsilon$$

From the findings in the regression analysis, if the factors Customized Product, Market Segment, Superior customer and Product Retail Prices were held constant, performance of Small and Micro Enterprises (SMEs) would be at 0.971. A unit increase in Customized Product would lead to an increase in performance of Small and Micro Enterprises (SMEs) by 0.280, a unit increase in Market Segment would lead to an increase in performance of Small and Micro Enterprises (SMEs) by 0.296, a unit increase in superior customer would lead to an increase in performance of Small and Micro Enterprises (SMEs) by 0.221, and a unit increase in Product Retail Prices, would lead to an increase in performance of Small and Micro Enterprises (SMEs) by 0.517. The model is given as follows;

Table 4: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.746	.483		3.615	.001
Customized Product	.280	.421	.337	.664	.000
Market Segment	.296	.236	.416	1.251	.003
Superior customer	.221	.368	.275	.601	.002
Product Retail Prices	.517	.248	.544	2.086	.000

Optimal Model

$$Y = 1.746 + 0.280X_1 + 0.296 X_2 + 0.221X_3 + 0.517X_4 + \epsilon$$

Where:-

Y= Performance of Small and Micro Enterprises (SMEs)

β_0 =constant

X_1 = Customized Product

X_2 = Market Segment

X_3 = Superior customer

X_4 = Product Retail Prices

ϵ =Error Term

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Hybrid Strategy and Performance of Small and Micro Enterprises (SMEs)

The study objective was “To establish the influence of hybrid strategy on small and micro-enterprises (SMEs) performance in Machakos Town, Machakos county. The study finding indicates that cost Hybrid Strategy has greatest influence on performance as indicated by ($\beta_4=0.764$, $p=0.000<0.05$). The study answered the research question; How does practice of hybrid strategy influence performance of small and micro enterprises (SMEs) in Machakos Town, Machakos county? The study found that pursuit of either cost leadership or Market Segment alongside the main SMEs Customizing Product is essential. Pursuing Customizing Product as stand alone is not normally enough since an SME is small firm that is unable to fully focus on one broader market. The study established that the dynamic market requires SMEs employ combined strategies for growth and longtime survivor.

Conclusion and Recommendations

From the findings, the study concludes that the key success factors for the implementation of hybrid strategies are innovative strength, close orientation towards customer needs and organizational learning. Hybrid strategies require SME to make consistent strategic decisions on how to pursue competitive advantages and align its resources and capabilities accordingly. SMEs in Machakos adopt simultaneous strategies aimed at generating cost and differentiation advantages at the same time.

The study recommends that SMEs view adoption of singular generic strategy as insufficient in today’s competitive and dynamic market environments. Increased competition, products cost factor, effects of globalization as well as changing customer expectations require firms to adopt a multidimensional strategic approach. Most customers expect to get everything at once, differentiated, high-quality products combined with excellent service all at a low price. Hybrid strategy that integrates cost and differentiation advantages represents a way for firms to respond to these changes in the competitive environment in a more flexible and effective approach and hence remain competitive. One way to achieve cost and differentiation advantage is mass customization aimed at producing customized products at a price similar to those of mass-produced products. Customization may be achieved through design or mixing-and-matching of components.

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