

Influence of Intensive Growth Strategies on Performance of Registered SMEs in Kisumu County

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Abstract:- The purpose of the study was to establish the influence of intensive growth strategy on the performance of SMEs in the county of Kisumu, Kenya. Anchored on the theories of system and dynamics capabilities the study sort to specifically establish the influence of market penetration on the performance of these SMEs. A correlational research design was adopted. The study was carried out on a sample of 384 respondents from over 7,000 SMEs in the county. Simple random sampling technique was used to identify the respondents. Collection data was done using structured questionnaires whose reliability was checked by the experts in the department. The instruments reliability was checked by Cronbach “s reliability coefficient .Data analysis was done using both descriptive and inferential methods while results were presented using tables .The findings of the study revealed that marked penetration had the strongest significant effect on the performance ($= .353, p < .05$) thus the null hypotheses was rejected .It was concluded that intensive growth strategies have a positive and significance effect on the performance of SMEs in the county of Kisumu .The study recommended that market penetration be enhanced in order to improve the performance of these SMEs. The findings may aide the SMEs stakeholders and the government to lift the economic growth and develop relevant policies through an intensive growth strategy.

Keywords:- Intensive Growth Strategy; Performance.

I. INTRODUCTION

Performance of a firm refers to subjective measures of how a firm uses its resources to create more wealth (Heikkila & Heikkila 2017). Small and Medium Enterprises performance can be understood from a qualitative perspective which covers the number of customer, efficiency, financial results and level of production. (Anggadwita & Mustafid, 2014). It also entails cost of liquidity, dynamics of revenue ,productivity ,market share and profitability (Gupta & Batra 2016) and Zimon (2018).Performance from a qualitative perspective refers to goals achievement ,employees behavior and the leadership style in the organization (Anggadwita & Mustafid ,2014),marketing,process and product innovation (Sheehan ,2013),and customer satisfaction (Alpkan ,Yilmaz & Kaya ,2007).

Gopang, Nebhwani, Khatri and Marri (2017), in their work, describe SMEs performance using 14 indicators. These included sufficient working capital ,reputation of the organization, productivity, employee satisfaction, profits, sales volume, prompt order delivery ,effectiveness in

operation of production, product quality, achievement of targets ,number of clients easiness in supervision, reduction in product cost and product diversification. Based on the nature of the SMEs in Kisumu, what could well describe performance are effectiveness and efficiency. Effectiveness was therefore be assessed through goals, missions and objectives while efficiency entail maximum resource utilization, output, ratio of overhead costs, and timeliness in service delivery. There are various factors that are associated to performance among SMEs, however, due to the challenges they face both in their products and market, the most significant attributes are market and product, which can be traced to the intensive growth strategies.

Intensive growth strategy refers to a set of actions, goals and plans that provide an overview of how a business will compete in a particular market while safeguarding the present position and expanding the current product market space to achieve growth targets. (Midwa, 2008).It also refers to the approaches that are very important and useful for a business that has not fully exploited the opportunities that exists in their current market using their available products. (Timothy, Parpairis, MacDonald & Tosun .2013). Intensive growth strategies were long outlined by Ansoff (1977), and termed as the product market expansion grid. According to Verhoeven and Johnson (2017), Intensive growth strategies revolve around two factors which are the product and the market. As a result, there are four main strategies constructing intensive growth strategy, these are; market penetration, market development, product development and diversification (Heikkila, Bouwman & Heikkila, 2017).

Small and medium enterprises accounts for a significant amount of a nation’s economic development. Business systems recently have undergone a number of changes due to globalization. These changes are in terms of growth in both size and magnitude. To cope with these changes, modern management techniques are used in contemporary business environment. One of such techniques is intensive growth strategies. Intensive strategies have advocated the progressive use of SMEs to accelerate the pace of economic growth especially in the developing countries (Njeru, 2015). In the process, entrepreneurship education and promotion of entrepreneurial spirit has received adequate attention in several countries, particularly the so-called Asian Tigers (Owualah, 2018).

The economic drivers in Kenya are the Micro, Small and Medium enterprises which fall under the informal sector popularly known as the Jua Kali sector. The sector currently is receiving a lot of government attention and support as it

employs over 80% of the population and is seen as the solution to the biting unemployment especially amongst the youths. Over 65% of Kenyan population is youthful and unemployed. It is estimated that today, Kenya's informal sector constitutes 98 percent of all businesses in the country, absorbs annually up to 50 per cent of new non-formal employment seekers, has an employment growth rate of 12-14 percent, contributes 30 percent total employment and 3 percent of GDP. However in the first quarter of the year 2020, the Kenyan SME sector experienced a challenging economic period with a myriad of challenges including invasion by locust and excessive flooding which was worsened by COVID 19 pandemic leading to partial and total lockdowns and supply chain shutdown.

Cash flow was the greatest problem faced by SME followed by disruption in sales as reported by the WYLDE Kenyan SME sector Performance report. Consequently, 26% of SMEs anticipated a hard time in paying salaries to their staff due to dwindling profits. Additionally, 19 % expected revenue losses while another 19 % of SMEs anticipated defaulting on their bank loans for over six months. Among the factors that could save the extinction of these SMEs could be an appropriate strategy to help them remain afloat in the market, however, statistics shows that lack of appropriate growth strategy mechanism has negatively impacted on the SMEs. Previous studies on SMEs have attributed to a number of factors on their perpetual failure- ranging from inadequate accounting procedures to their inability to manage growth. From this stand point, it is reasonable to suggest that intensive growth strategies could be a key determinant in improving business performance of SMEs. Previous studies, emphasized on the importance of strategic management practices. In Kisumu County, unlike other counties apart from Nairobi, there are many, approximately 7,000 registered SMEs whose role is yet to be recognized according to the data from single business permit licenses Kisumu County Government 2018. The SMEs also keep growing every day with increased population and infrastructural development due to larger percentage share of capitation from the National Government. The strategic practices of these SMEs are at stake due to inability of the leaders to make appropriate strategic decisions. Besides, in Kisumu County, the SMEs there has been poor response to ever growing market due to emergence of strong competitors on daily basis. Moreover, there is also lack of information on the influence of intensive growth strategies on the performance of these SMEs. This study therefore seeks to unearth the influence of intensive growth strategies on performance of SMEs in Kisumu County, Kenya.

II. LITERATURE REVIEW

➤ *Market penetration and Performance*

Market penetration is the first option that small businesses tend to adopt hoping to grow and expand their operations and suits best where there are no new products and no new markets to enter (Tien, 2019), the small businesses left with no other choice will look at what it currently has and where it currently is. The small business will thus market its existing products or services in the market it is with the aim of increasing its market share. Some of the market penetration strategies

employed by small businesses are reduction of the selling price of the product or service to attract customers, increasing product promotions to improve their pull strategy, expanding distribution channels to widen their reach, effecting improvement on the product and zeroing the competitions customers and distribution channels (Rusliati & Mulyaningrum, 2019)

Auma and Waithaka (2020) study's investigated the influence of market penetration strategy on the organizational performance of public universities in Kenya. The study was anchored on Ansoff's growth-vector matrix and employed a cross sectional survey design with a total population (census) of the 33 public universities in Kenya. The respondents were staff from marketing, planning and strategy, finance and administration departments of the universities. Data was collected through semi-structured research questionnaires, which were self-administered to the respondents with the assistance of the researcher. Data was analyzed through descriptive statistics and inferential statistics including regression analysis and correlation to establish the potential relationship between market penetration and the performance of the organization. The study found that market penetration growth strategy has a positive influence on the performance of public universities. The universities have increased their advertising expenditure to ensure the university services are promoted adequately. It can be noted from this study that market penetration has a positive influence performance. However, this study was done on public universities which do not have same characteristics as small and medium sized enterprises.

Muriira (2018) assessed the effect of rebranding strategy on performance among commercial banks in the Kenya County of Nyeri. The study was guided by the Porters five force model and used a descriptive cross sectional research design. The target group were the 79 operation managers and the departmental heads of Commercial banks in Nyeri County. Semi-structured questionnaire was used to collect data on rebranding strategies to competition. Regression analysis was conducted to determine the statistical significance of the attempted prediction between rebranding strategies to competition and performance among commercial banks. Simple regression analysis showed that rebranding strategy was not statistically significant. Multiple regression analysis showed that 61.1% of financial performance of commercial banks can be explained by the other strategies. The study recommended that banks should invest in research into financial innovations. This study shows that there is a relationship between rebranding strategies which forms part of product development growth strategy. However, it is clear that the relationship is not significant. In addition, the study was done on commercial banks which does not fully reflect the traits of small and medium enterprises.

Tanusondjaja, Nenycz-Thiel, Dawes and Kennedy (2018) investigated the contribution of each stock-keeping unit within a brand portfolio towards total brand penetration and market share, by adapting a method called Saturation Curve Analysis. The study utilized UK and US data on 90,000+ stock-keeping unit across 15 packaged goods

categories. The results showed that while the optimal number of stock-keeping unit in a portfolio is category specific, the top-selling stock-keeping unit contributes around 50% of the brand penetration and 40% of sales. This establishes a benchmark for monitoring brand performance. These results emphasize the importance of having top-selling stock-keeping unit readily available to consumers, rather than sacrificing them over new product launches. Examining these findings thus indicates that new product launches, which emanate from product development, are not the best determinant of performance, although it was not specified. Given that the market under study was among the developed countries with sophisticated tools and structures in market penetration, such findings cannot be generalized on the problematic SMEs in Kisumu County, hence need for a new study.

Market penetration plays an important role in performance of SMEs Suhera (2021). The study analyzed the effect of customer relationship quality, entrepreneurial social competence and customer sensing on market penetration capabilities in the SME sector. In addition, by taking market penetration capability as a mediating variable, the study also examined the effect of the independent variable on marketing performance in SMEs. The study results highlight several important findings regarding the competitive advantage of SMEs and the formation of networks and highlight the importance of network formation in SMEs, where the development of networks or partnerships is one of the critical success factors for improving SME performance. Practically, this finding is useful to increase the interaction of SMEs with customers during certain stages in the product development process to get positive added value on product success and the formation of competencies that encourage businesses to enter the market based on social familiarity, feature-oriented attractiveness, and interwoven customer emotional loyalty.

David, Kiiru and Hannah (2021) study on the influence of market penetration strategies on organizational performance of dairy cooperatives in Meru County, Kenya established that adoption of performance of dairy cooperatives were significantly influenced by the market penetration strategies adopted. This study adopted a descriptive survey research design and was confined to the 42 dairy cooperatives in Meru County, Kenya. The targeted population comprised of 131 respondents in the position of general managers, assistant managers, marketing managers and officers from the Ministry of Agriculture, Livestock and cooperatives. The sample size was 99 respondents. Stratified random sampling technique was used to select the sample. Semi structured questionnaire was used to collect data from the respondents. Multiple regression analysis was used to determine the effect of the three variables on organizational performance of the co-operative societies. Based on the findings on market penetration strategies, the study concluded that competitive market penetration positions puts the organizations products in a better place in reference to its competitors. The organization lowers the prices of its commodities and ensures that it offers better quality products and gives increasing incentives to dealers to ensure that it

penetrates in most markets with ease. However, such a study has not been done on small and mediums sized enterprises in the county of Kisumu moreover the study was done on cooperatives which are more advanced in business compared to SMEs.

Syahdan, Djaelani and Mahdi (2020) looked at the relationship that exists between market orientation, entrepreneur orientation, learning orientation, technological orientation and access to finance, and SME's performance in Indonesia. It provided a clear understanding about the relationships among SME's performance in Indonesia and market orientation, entrepreneur orientation, learning orientation, technological orientation, and what mediating role financial access plays in this relationship. It was established that identifying the strategic variables which may reflect the aforementioned management activities or processes, such as marketing, innovativeness, risk taking, technology and learning culture, which SMEs use will probably influence their performance. The findings of the study argued that to deal with the current external opportunities and menaces, new knowledge and skills for improving their existing and future performances must be provided for the organizations. Clearly, some elements of market penetration were left out. The study did not also directly deal with market penetration and performance on SMEs, which is timely.

Auma and Waitthaka (2020) study found that market penetration growth strategy has a positive influence on the performance of public universities while Muriira (2018) study showed that rebranding strategy was not statistically significant on performance of commercial banks. Tanusondjaja, Nenycz-Thiel, Dawes and Kennedy (2018) established that stock-keeping unit contributes around 50% of the brand penetration and 40% of sales. Suhera (2021) study was too indirect on the effect of customer relationship quality, entrepreneurial social competence and customer sensing on market penetration capabilities in the SME sector. Finally, David, Kiiru and Hannah (2021) indicated that adoption of market penetration strategies had a positive and significant influence on performance of dairy co-operatives. These studies thus indicate that there is a mixture of findings with both positive and negative results thus leading to lack of substantive conclusion. The current study seeks to establish the influence of market penetration on performance.

III. RESEARCH METHODOLOGY

Correlation research design was used to examine a relationship between two concepts where there is some kind of influence of one on the other or where one concept causes changes to occur in the other. The research design was suitable in this study since it effectively examined the relationship between intensive growth strategies aspects and their influence on the performance of small and medium enterprises. The research was conducted within Kisumu city in the central Business District. Kisumu County has approximately 7,000 small and medium sized enterprises. The target population of the study was 7000 proprietors of the 7,000 registered small and medium enterprises in Kisumu

County. A sample size of 384 respondents was determined by use of simple random sampling technique.

Both Primary and Secondary data collection techniques were used to collect data on Performance of SMEs in the county of Kisumu and the Intensive growth strategy employed. The research instruments were designed to collect quantitative data and administered through drop and pick methods .The questionnaire had structured and open ended

questions which allowed extra information to be provided outside the structured responses during the survey. Piloting was done to 30 respondents before the actual data collection practice. Internal consistency of research tool was tested by employing Cronbach Coefficient Alpha test while internal consistency of data was determined by correlating the scores obtained. The data so collected was analyzed using SPSS and presentation done using tables, texts and figures.

IV. RESULTS AND DISCUSSIONS

| Statements | SD | D | N | A | SA | M | SD |
|---|----------|-----------|---------|-----------|-----------|------|------|
| Reducing the selling prices of services | 52(13.6) | 106(27.8) | 16(4.2) | 135(53.4) | 72(18.9) | 3.07 | 1.45 |
| Increasing promotion of the product | 48(12.6) | 59(15.5) | 34(8.9) | 141(37) | 99(26) | 3.18 | 1.38 |
| Increasing promotion of the service | 48(12.6) | 52(13.6) | 24(6.3) | 152(39.9) | 105(27.6) | 2.52 | 1.36 |
| Expanding distribution channels | 99(26) | 99(26) | 28(7.3) | 101(26.5) | 54(14.2) | 2.44 | 1.35 |
| Effecting improvements on the product | 99(26) | 112(29.4) | 35(9.2) | 82(21.5) | 48(12.6) | 2.77 | 1.44 |
| Zeroing on the competitors channels | 18(4.7) | 12(3.1) | 33(8.7) | 145(38.1) | 173(45.4) | 3.46 | 1.40 |

Table 1:- Descriptive statistics.
Source Research Data 2021.

The results revealed that, majority, 135(35.4%) of the respondents agreed that they reduce the selling prices of the products which was also highly rated (M=3.07, SD=1.45). In addition, the findings shows that majority, 141(37.0%) of the SMEs owners increased promotions for their products and this was seconded by a high mean and standard deviation (M=3.18, SD=1.38). It is further clear from the findings that increasing promotions for services was done by majority, 152(39.9%) of the SMEs owners who agreed as well as 105(27.6%) who strongly agreed. This was further confirmed by a high mean and standard deviation (M=2.52, SD=1.36). Majority, 101(26.5%) of the respondents agreed that they expanded their distribution channels although to a small extent (M=2.44, SD=1.35) while 112(29.4%) declined that they effected improvement of their products. One hundred

and forty five, that is 38.1% of the respondents indicated that they zeroed in on the competitor’s distribution channels, which had a low rating (M=3.46, SD=1.40).From these findings, it can be concluded that SMEs practiced market penetration strategy.

➤ *Correlation analysis statistics*

The study established that there is a strong correlation between market penetration and performance of SMEs in Kisumu county (r=.531, p<.05). This implies that performance of SMEs in Kisumu County is strongly associated with market penetration such that the more the SMEs penetrate the market, the better the performance as shown in table 2.

| Performance | | Market penetration | |
|--|---------------------|--------------------|--------|
| | Person correlation | 1 | .531** |
| Performance | Sig. (2-tailed) | | .000 |
| | N | 381 | 381 |
| | Pearson Correlation | .531** | 1 |
| Market Penetration | Sig. (2-tailed) | .000 | |
| | N | 381 | 381 |
| **Correlation Significance at 0.01 level (2-Tailed) | | | |

Table 2:- Correlation between Market penetration and Performance of SMEs

➤ *Regression analysis statistics*

Further illustration from the standard multiple linear regression the results of the standard coefficient indicates that market penetration has a positive and significant effect on performance of SMEs ($\beta=.353$, $p<.05$). The findings of the unstandardized coefficient were ($b=.317$, $p<.05$). This means that for every one unit improvement in market penetration, there is a 0.317 magnitude of improvement in performance of SMEs in Kisumu County based on the study scale used. Thus rejecting the null hypothesis as indicated in table 3.

| Unstandardized Co-efficient | | | Standard Co-efficient | T | Sig | Collinearity Statistics | |
|-----------------------------|------|-----------|-----------------------|-------|-------|-------------------------|-------|
| | B | Std Error | Beta | | | Tolerance | VIF |
| Constants | .317 | .042 | | | | | |
| <u>Market Penetration</u> | .317 | .042 | .353 | 7.458 | 0.000 | .741 | 1.349 |

Table 3:- Co-efficient Results on Market Penetration and Performance of SMEs

V. CONCLUSIONS AND RECOMMENDATIONS

The objective sort to determine the influence that market penetration has on the performance of registered SMEs in Kisumu County. The study established that most of the SMEs penetrate new markets which was a positively correlated with performance. It was also established that market positive and significant influence on the performance of SMEs.

Based on the aforementioned findings Market penetration is important to the expansion and survival of SMEs in Kisumu County. Continuous penetration of new markets creates a better platform for selling of the products of the SMEs thus guaranteeing them growth. This eventually leads to improved performance which means that the SMEs become more productive, effective, sustainable and efficient. Therefore market penetration is an important predictor of performance of SMEs in Kisumu County in Kenya.

Due to importance of market penetration to the performance of SMEs, the study recommends that SMEs should seek to look for more new markets but also maintain the current markets so as to improve their performance. This can be achieved through embracing cheap research or product promotion activities.

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