

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

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DECLARATION

This research project is my original work and has not been presented in any learning institution for any academic award.

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DEDICATION

I dedicate this project to my family for standing by my side and for their kind words which have always kept me going. May God bless you all.

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I would like to thank and acknowledge the almighty God for provision and good health during my study period as well as the time when I was working on my research dissertation. Many thanks go to my supervisors Dr. Ruth King'oo and Dr. Wanjiku Kinyanjui for your constructive criticisms which enabled me to develop this research work to the best of my ability. To my class mates and my colleagues at the workplace, thank you for your inspiration and motivation.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CS	Competitive strategies
EU	European Union
KNBS	Kenya National Bureau of Statistics
NACOSTI	National Commission for Science, Technology and Innovation
RBV	Resource Based View
SMEs	Small and Medium Enterprises
SWOT	Strengths, Weaknesses, Opportunities and Threats
SPSS	Statistical Package for Social Sciences
VCA	Value Chain Analysis

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OPERATIONAL DEFINITION OF TERMS

Term	Definition
Competitive Strategies	Long-term strategies that lead the company towards achieving a competitive edge over its competitors. Such a company has large Market share, is profitable and its customers are satisfied with the offering
Differentiation Strategy	A strategy in which a product is different from that of one or more competitors in a way that is valued by the customers or affects customer choice. A successful differentiation strategy results in unique product features, brand loyalty and premium pricing
Small and Medium Enterprises (SMEs)	Businesses that employ up to 500 people and are registered by the government to operate the intended business they are identified by; number of employees they have, business registration status and annual revenue returns.
Strategic Planning	The organization's process of defining its strategy, direction, and making decisions on the allocation of resources to pursue this strategy. It sets Long-term goals, means of resource allocation, efficiency levels to be attained and performance metrics
Market-Focus Strategy	A strategy where the company segments the market and focuses on a niche of customers with unique needs. It leads to market segmentation, niche market penetration and customer retention
Product Differentiation	A strategy adopted by a firm that involves having a variety of products to be attractive to clients based on size, shape, physical structure, and style. A company pursuing such a strategy has product variety, caters for customer preferences and innovates products continuously.

Personnel Differentiation	A firm's competitive advantage achieved through having better-trained people. It focuses on employee skills, training programs and customer service quality
Growth (Dependent Variable)	The increase in a company's performance or size over a certain period. The indicators are revenue growth, profitability and market expansion.
Innovation Strategy	The approach a company takes to foster new ideas, products, or processes to gain a competitive edge. It has strong research and development (R&D) function, launches new products fast and patents all the innovations.
Market Focus Innovation Strategy	A strategy where the firm innovates specifically to address the needs of a niche market segment. Market adaptation, product customization, customer satisfaction
Factor Innovation Strategy	A strategy where the firm focuses on innovating its core factors of production or operations to achieve competitive advantage. It is characterized by process improvements, cost reduction, increased efficiency

ABSTRACT

Small and Medium Enterprises (SMEs) play a critical role in economic development, job creation, and poverty alleviation. However, despite their significance, many SMEs face substantial challenges that impede their growth. As a result, many struggle to achieve maturity while others fail within a short period of time. In response to these issues, they are increasingly focusing on implementing differentiation strategies to navigate the dynamic business environment characterized by competition. This motivated the study which aimed at examining on the influence of differentiation strategies on the growth of SMEs in Makueni County. Specifically, it sought to determine how product differentiation, personnel differentiation, market focus innovation, and factor innovation strategies influenced growth. The research was guided by the Diffusion of Innovation theory and Schumpeter's theory of innovation, providing a theoretical framework for understanding how these strategies contribute to business success. An explanatory research design was employed, with the target population consisting of 1,890 SMEs registered and licensed in Makueni County. Using Yamane's formula, a sample size of 330 SMEs was determined, with managers of the SMEs selected through stratified sampling procedure. Data was collected by use of questionnaires, and analysis was conducted using SPSS version 25. Descriptive statistics, that included mean, standard deviation, frequencies, and percentages, were used to analyze the data. Correlation analysis was also employed to test whether data could be subjected to regression analysis. Regression analysis was used to predict the whether independent variable explained growth of SME. The findings revealed that product differentiation significantly enhanced SME growth, demonstrating a strong relationship with growth outcomes. Personnel differentiation also played a crucial role in fostering growth, indicating its importance in enhancing organizational performance. Market focus innovation contributed positively to SME growth, emphasizing the value of tailoring offerings to specific market segments. Factor innovation had the most substantial effect on growth, highlighting its critical role in driving business expansion. In conclusion, all strategies proved crucial for SME growth, offering insights for managers to develop effective differentiation approaches. The findings also provide guidance for policymakers in the Ministry of Industry and Trade and Local governments to foster growth. Future research should extend beyond Makueni County and include various sectors to broaden the understanding of differentiation strategies and their impact on business growth. This is because operational strategies adopted by SMEs are contingent to each one of them, consequently determining those that grow and those that get extinct.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

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 existing barriers and enhance access to financing. 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), 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. This study therefore sought to determine the effects of differentiation strategies on the performance of SMEs in Makueni County, Kenya.

1.1 Differentiation Strategy

Strategy may be defined as the broad program of goals and activities to help a company achieve success. It is a match between organization's resources skills, environmental opportunities risks faced and the purposes it wishes to accomplish (Schendel & Hofer, 2019). This statement emphasizes that the environment is constantly changing and it is imperative that organizations have to constantly realign their activities to match with the new environmental requirements. Having a strategy ensures that day-to-day decisions are

in line with the long-term aspirations of owners of the organization. Without aid, decisions made today could have a negative impact in future results (Bruce & Langdon, 2022). A company's competitive strategy consists of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations in order to withstand competitive pressures and strengthen its market position. As such one of the approaches of achieving a distinct competitive strategy is through a differentiation strategy (Porter, 2020).

Studies conducted in the US and Australia show that employing strategies like differentiation has allowed firms to enhance their competitive advantage, resulting in higher profitability and market performance. In Australia, it was established by Nguyen (2001) that the use of various competitive strategies and financial characteristics directly impacts profits. In this study, 87% of SMEs were found to apply strategic management practices before making decisions. These practices included efficient utilization of fixed assets, payback period techniques, budgeting, planning, and cash flow techniques.

Product differentiation involves creating unique products that stand out in the marketplace. According to JerabandMabrouk(2023), offering distinct features, quality, or design, businesses can attract customers who perceive added value in the product. It allows businesses to target specific market segments and reduce the impact of competition. Thus, SMEs that invest in product innovation and quality improvements are more likely to build brand loyalty and secure a competitive position in the market, leading to improved growth and profitability.

Personnel differentiation focuses on the quality, skill, and performance of a firm's employees as a competitive advantage. For SMEs, especially in service-oriented sectors, having well-trained and knowledgeable personnel can significantly influence customer satisfaction and loyalty (Rane, Achari & Choudhary, 2023). Through excellent customer service, technical expertise, and personalized experiences, SMEs can create a strong competitive edge that drives repeat business and customer retention (Muriithi, 2017).

Market focus innovation emphasizes targeting specific market niches with tailored products and services. More often, organisations benefit from this strategy when they are focused on specialized markets where they can meet unique customer needs more

effectively than larger competitors (Toften & Hammervoll, 2023). In concentrating on a particular market segment, SMEs can innovate in product design, delivery, or marketing to serve the specific demands of their target customers. This approach enables businesses to capture a loyal customer base and achieve sustainable growth through focused market innovation (Kotler, 2020).

Factor innovation involves the creative use of resources, processes, or production methods to enhance efficiency and reduce costs. According to Yeboah (2023), this strategy includes adopting new technologies, improving supply chain management, or streamlining operations to gain a competitive advantage. SMEs can improve productivity and reduce operational expenses, leading to increased profitability and market growth. Factor innovation enables SMEs to maximize the use of limited resources, which is crucial for their long-term success and competitiveness in the market (Schilling, 2023).

1.2 Statement of the Problem

Small and Medium Enterprises (SMEs) play a critical role in economic development, job creation, and poverty alleviation. However, despite their significance, many SMEs face substantial challenges that threaten their survival and growth. Studies indicate that a large percentage of SMEs do not survive beyond their first few years of operation. For instance, according to the Kenya National Bureau of Statistics (KNBS), three out of five SMEs in Kenya fail within the first few years of operation due to challenges such as competition, limited access to financial resources, and poor strategic planning (KNBS, 2020). A major factor contributing to these high failure rates is the inability of SMEs to effectively differentiate themselves from competitors and attract a loyal customer base.

Customer dissatisfaction and high dropout rates among SMEs have also been highlighted as key challenges. Hulme and Wright (2019) found that one of the leading causes of SME dropout is customer dissatisfaction, as clients often switch between different SMEs offering similar products and services. This trend suggests that customers perceive little difference between competing SMEs, which reduces customer loyalty and retention. In addition, competition from informal and unregulated players has intensified, as these businesses tend to offer more flexible services and faster turnaround times, further pressuring formal SMEs to find ways to stand out in the market (Anita, 2020).

Given this context, there is a need for SMEs to develop strategies that enhance their competitive advantage and enable them to differentiate their products and services from those of competitors. The literature emphasizes the importance of SMEs shifting from product-centered to customer-centered strategies to address the issue of client dropout and ensure growth. For example, Dunn et al. (2020) argue that SMEs should focus on understanding customer needs and preferences to develop competitive strategies that foster customer loyalty and long-term growth. Furthermore, Wooller (2012) highlights that the innovation methodologies commonly employed by SMEs assume a homogenous market, overlooking the diverse needs of clients.

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. Mwanzia (2016) examined the importance of differentiation strategies for SMEs, emphasizing the role of these strategies in maintaining competitiveness in the market. Kimani (2018) studied factors influencing the growth of women-owned SMEs, with a particular focus on access to credit and government policy.

The problem under investigation in this study was the limited adoption of differentiation strategies among SMEs in Makueni County, which may be hindering their growth. This study aimed to explore how various differentiation strategies—such as product differentiation, personnel differentiation, market focus innovation, and factor innovation—could potentially influence the growth of these SMEs when effectively implemented.

1.3 Objectives of the Study

The general objective of the study was to establish the influence of differentiation strategies on growth of SMEs in Makueni County, Kenya.

1.3.1 Specific Objectives

The study was guided by the following specific objectives:

- i. To determine the Influence of Product differentiation strategy on growth of SMEs in Makueni County, Kenya.

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

1.4 Significance of the Study

This study is expected to provide valuable insights into effective strategies for SME growth in Kenya. By identifying the impact of various differentiation strategies, the study aims to offer practical recommendations for SMEs to enhance their growth and sustainability. These insights will help SMEs to adopt best practices, thereby improving their competitiveness and profitability.

For policymakers, the findings will be crucial in shaping policies that support SME development and align with national economic goals, such as job creation and economic growth, as outlined in initiatives like the Big Four Agenda and Kenya Vision 2030. Effective policies can foster a more robust SME sector, contributing to broader economic objectives.

Scholars and academicians will benefit from this study by gaining new literature on SME growth, particularly in the context of differentiation strategies. This research fills a gap in the existing literature, which often focuses more on performance than on growth, providing a foundation for future research in this area and addressing challenges faced by SMEs in developing countries.

1.5 Scope of the Study

The study focused on the influence of differentiation strategies on the growth of Small and Medium Enterprises (SMEs) in Kenya, specifically within Makueni County. It examined four independent variables: product differentiation strategy, personnel differentiation strategy, market focus innovation strategy, and factor innovation strategy. The conceptual scope included identification of the nature of the variables

studied and determination of the components of each one. This led to discovery of the indicators and consequent operationalization that guided empirical review and research methodology. Development of the proposal, data collection and report writing took a period of about six months and additional time for administrative procedures. This timeframe allowed for a thorough investigation of the differentiation strategies and their influence on SME growth within the in Makueni County.

1.6 Limitations of the Study

As the data for this study was collected through questionnaires, there was limited control over the honesty and accuracy of the responses provided by participants. However, the structure of the questionnaire helped identify incomplete responses, allowing the researcher to address any gaps in the data. Additionally, some respondents were hesitant to share confidential information about their businesses due to concerns that it might be leaked to government agencies. To mitigate this, the researcher assured participants that the study was solely for academic purposes, supported by an official introductory letter from the University to confirm her status as a student. This reassurance was intended to build trust and encourage honest participation. Additionally, given the wide distribution of SMEs across the region, two research assistants were enlisted to aid in the data collection process, improving efficiency and coverage.

The study also faced challenges related to participants' busy schedules, which affected response rates. Of the 330 questionnaires distributed, 243 were completed, yielding a response rate of 73.6%. To address this issue, the researcher implemented a flexible approach by providing online surveys, allowing participants to complete them at their convenience. This strategy aimed to accommodate respondents' schedules and increase the likelihood of receiving completed questionnaires.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews both theoretical and empirical literature on differentiation strategies and growth of SMEs. Specifically the chapter discusses theoretical underpinning of the variables, conceptual framework, empirical literature review and research gaps.

2.2 Theoretical Review

The study is anchored by two theories namely: Diffusion of Innovations theory and Schumpeter's theory of Innovation. They provide a framework for understanding how differentiation strategies relate with growth of businesses. .

2.2.1 Diffusion of Innovations theory

The Diffusion of Innovations theory, advanced by Rogers (1962), posits that the adoption of new ideas, behaviors, or products occur in a non-simultaneous process within a social system. It categorizes adopters into five groups: innovators, early adopters, early majority, late majority, and laggards. Each group exhibits different behaviors towards adopting innovations (Rogers, 1962).

In the context of SMEs, this theory is relevant for understanding how differentiation strategies are adopted and implemented. Innovators within SMEs often experiment with new differentiation strategies, such as unique product features or specialized services (Haddad et al., 2019). Early adopters among SMEs, who are often influential within their business networks, are quick to embrace and implement these strategies. The early and late majority tend to adopt these strategies once they observe their success and practicality demonstrated by other businesses. Laggards, who are typically more resistant to change, are the last to adopt such strategies and often require substantial evidence of their benefits before doing so (Haddad et al., 2019).

The theory highlights several factors that influence the adoption of innovations: relative advantage, compatibility, complexity, trialability, and observability (Almeida, 2024). For SMEs, the adoption of differentiation strategies depend on how they offer a relative advantage over competitors, align with existing practices, are easy to implement, can be trialed on a small scale, and are observable by potential customers. Although the theory

has limitations, such as its focus on behavioral adoption rather than cessation and its lack of consideration for individual resources, it remains useful in explaining how SMEs can achieve a competitive advantage through differentiation (Zhang, 2022).

2.2.2 Schumpeter's Theory of Innovation

Schumpeter's theory, proposed by Joseph Schumpeter, argues that innovation is a key driver of economic change and investment (Schumpeter, 1934). Accordingly, innovation involves the commercial application of new methods and sources of energy, which leads to increased investments and business fluctuations. Innovation is viewed as a cyclical process that can cause economic shifts rather than mere invention (Schumpeter, 1934).

In relation to SMEs, Schumpeter's theory underscores the importance of innovation as a differentiating factor that can drive growth. For businesses to effectively navigate the competitive landscape, they must prioritize innovative differentiation strategies because they are core to introducing a new product or better ways of doing things. This includes adopting new technologies, improving business processes, or developing unique products and services. By focusing on innovation, it is possible to enhance a competitive position and adapt to changing market conditions (Andrés et al., 2024).

The limitations of the theory include its primary focus on sociology rather than business and its failure to consider that innovation alone may not account for all economic fluctuations (Karitu et al., 2022). Despite these shortcomings, Schumpeter's theory supports the argument that SMEs can leverage innovation to gain a competitive edge and achieve growth. Firms that successfully implement innovative differentiation strategies are more likely to thrive in a dynamic business environment compared to those that do not.

Overall, both theories provide valuable insights into how differentiation strategies can influence the growth of SMEs. The Diffusion of Innovations theory helps to explain the adoption process of differentiation strategies, while Schumpeter's theory highlights the role of innovation in driving business growth and maintaining competitiveness.

2.3 Empirical Literature Review

This section covers a review of literature of the past studies that related to the study variables with the view of discovering what is known and what is not. The studies

enabled the discovery of the gaps not addressed and validated the continuation of conducting the research.

2.3.1 Product Differentiation Strategy and Company Growth

Several studies investigated the impact of product differentiation on organizational performance, in the context of SMEs. For instance, Pulaj et al(2015) examined the effects of competitive strategies, including product differentiation, on organizational performance in Albania. The study used data from 110 firms, collected by use of a questionnaire. A positive relationship between product differentiation and performance metrics was found. However, the study primarily focused on competitive strategies' effects on financial performance. Moreover, it was conducted in a country whose economic and social status, 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 a questionnaire, the findings were 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. This presented a conceptual gap that the current study sought to address by focusing on the direct influence 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. The argument was 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 highlighted a research gap in linking product differentiation strategies to SME growth, which the study aimed 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 et al. (2015) conducted a study focusing on performance measurement, specifically evaluating internal processes that assess the effectiveness and efficiency of organizational actions. It 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 non-financial metrics, highlighting that customer satisfaction, developed over time, contributes significant value to SMEs. Satisfied customers are more likely to make a repeat purchase, show less price sensitivity, and provide referrals leading to enhancement of overall profitability. The study also emphasized that employee satisfaction is critical, particularly in the cooperative sector, where long-term retention 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 can be employed by private tertiary education institutions to gain a competitive advantage. The research used a descriptive and survey research design to assess the extent to which the institutions had implemented the 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, as well as 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 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 in China. A mixed-methods research approach was used where , a quantitative method that applied survey design and qualitative that used interview as a method of data collection were applied to 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.

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 which are different from SMEs that deal with non financial products.

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 on 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 conclusion was that the enterprise could adopt one or more of the following strategies to gain a competitive edge: Either become an innovative business process generator, launch innovative products as a leading strategy, and/or leverage technology-driven innovation to improve market penetration. These findings

suggested that different strategic approaches can 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 find out how various strategies employed by the firms influenced their growth trajectories. To achieve this, competitive strategies adopted by the telecommunication companies analyzed with a view of assessing their influence on the firms' expansion and performance. The findings indicated a positive relationship between the competitive strategies implemented by the telecommunication firms and their growth. This suggested that effective strategic approaches can significantly enhance the growth potential of such firms. However, the study was conducted in a telecommunication industry, which meant that findings may not be directly applicable to other sectors, such as (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 exports and innovation. A cross-sectional data from 406 Egyptian firms was collected between 2012 and 2013. Growth was measured by sales, profits, market share, and number of employee and the results revealed that both exports and innovation positively affected firm growth. 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 needed to be addressed.

Cassar and Friedman (2019) examined the impact of self-efficacy on entrepreneurial success. Panel data from the a study of Entrepreneurial Dynamics (PSED) in America was analyzed where cross sectional data 431 American entrepreneurs was included. The findings demonstrated that higher entrepreneurial self-efficacy (ESE) improved the likelihood of being a successful entrepreneur and establish a viable business. The study highlighted the importance of individual self-belief in entrepreneurship. This study sought to fill the gap by exploring how factor innovation strategies influenced growth of SMEs.

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. Accordingly 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 aimed at addressing.

Aaker (2019) outlined five key product innovation differentiation features as 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. The insights into product innovation provide a foundational understanding of how differentiation can enhance performance. However, the study primarily addressed product features.

2.4 Summary of Research Gap

This summary serves to clearly pinpoint where knowledge is lacking, guiding the focus of the current study. It highlights the limitations, unexplored areas, or inconsistencies in prior research that require further investigation.

Table 1: Research Gaps

Author(s)	Focus	Methodology	Findings	Gaps	How the Gap Were Addressed
Pulaj, Kume & Cipi (2015)	Relationship between competitive strategies and organizational performance	Data collected from 110 firms in Albania using a questionnaire.	Positive relationship between competitive strategies and financial performance.	Focused on financial performance rather than SME growth; global context rather than localized.	Targeted the influence of product differentiation on SME growth within Makueni County, Kenya, and focused on growth rather than just financial performance.
Mohsenzadeh & Ahmadian (2016)	Intervening effect of competitive strategies on the relationship between production capacity and performance	Primary data collected from export firms in Iran using a questionnaire; analyzed with SPSS.	Competitive strategies mediated the relationship between production capacity and performance.	Focused on export firms and used competitive strategies as a mediating variable rather than directly examining SME growth.	Directly investigated the impact of competitive strategies on SME growth and shifted focus from export firms to SMEs in Kenya.
Prescott (2019)	Relationship between performance evaluation and firm growth	Literature review and theoretical discussion.	Performance evaluation is critical for understanding growth but lacks empirical data on competitive strategies.	Provided theoretical insights but lacked empirical data specifically linking competitive strategies to SME growth.	Provided empirical evidence on the direct impact of competitive strategies on SME growth, complementing theoretical insights with practical data.
Neely, Gregory &	Role of non-financial performance metrics in	Literature review and theoretical discussion on	Non-financial measures are	Focused on theoretical aspects rather than	Provided empirical data on how personnel

Platts (2015)	organizational performance	internal performance metrics.	crucial for long-term SME performance.	empirical evidence; did not specifically address personnel differentiation in SME growth.	differentiation impacts SME growth, extending the theoretical work to practical insights.
Chiguvi et al. (2020)	Variables used in personnel differentiation	Theoretical review and identification of key variables.	Identified key variables for personnel differentiation such as knowledge, skills, and behavior.	Identified variables but did not empirically test their impact on SME growth.	Empirically tested the impact of these variables on SME growth, adding practical insights to the theoretical framework.
Mbugua & Kinyua (2019)	Effects of personnel differentiation on performance in deposit-taking MFIs	Descriptive research design with data from 123 MFIs in Nairobi City County, Kenya, using stratified random sampling.	Strong positive relationship between personnel differentiation and organizational performance.	Focused on micro-finance institutions rather than a broader range of SMEs; did not directly address SME growth.	Broadened the focus to a wider range of SMEs and specifically examined how personnel differentiation influences SME growth.
Hassion & Hart (2016)	Determinants of small firm growth, focusing on exporting and innovation	Regression analysis using cross-sectional data from 406 Egyptian firms (2012-2013).	Exporting and innovation positively affected firm growth.	Study context was Egypt, which differs from Kenya in institutional, cultural, and economic factors.	Investigated the role of factor innovation in SME growth specifically within Makueni County, Kenya, addressing regional context.

Cassar & Friedman (2019)	Impact of entrepreneurial self-efficacy on entrepreneurial success	Data from the Panel Study of Entrepreneurial Dynamics (PSED) and survey responses from 431 American entrepreneurs.	Higher entrepreneurial self-efficacy improved entrepreneurial success and business establishment.	Did not specifically address factor innovation and its role in SME growth.	Focused on the influence of factor innovation strategies on SME growth, adding a new dimension to existing literature by examining innovation's impact.
Kotler (2020)	Product differentiation and its role in innovation	Theoretical discussion on product differentiation and competitive advantage.	Differentiation is key for innovation and competitive advantage.	Emphasized product features rather than their impact on overall organizational growth.	Explored the broader impact of factor innovation on SME growth, moving beyond product features to examine how innovation strategies contribute to business growth.
Aaker (2019)	Key product innovation differentiation features	Theoretical framework on product innovation features.	High product quality and innovation lead to competitive advantage and higher profitability.	Focused on product features rather than their impact on overall organizational growth.	Examined how factor innovation strategies impacted SME growth, providing empirical evidence on the broader effects of innovation beyond product-specific features.
Wu, Lin & Perng (2022)	Market focus innovation strategies in Taiwanese SMEs	Literature review, Nominal Group Technique (NGT) for insights, and Fuzzy Set Qualitative Comparative Analysis (fsQCA).	Proposed a model for evaluating SME performance and competitive advantage based on	Focused on Taiwanese SMEs and did not directly address the impact of market focus innovation on growth.	Applied the proposed model to SMEs in Kenya, examining how market focus innovation strategies influence

			market focus innovation.		SME growth in a different regional context.
Rodrigues et al. (2022)	Strategic options for enhancing market position in Brazilian textile industry	Case study of OperacionalTêxtilLtda with strategic evaluation.	Recommended strategies including innovation in business processes, products, and technology.	Focused on a specific company and did not generalize findings to broader SME growth.	Generalized the strategic recommendations to apply to a wider range of SMEs in Kenya, assessing how these strategies can enhance growth in different industry contexts.
Akingbade (2014)	Effects of competitive strategies on telecommunication firm growth in Nigeria	Analysis of competitive strategies adopted by telecommunication firms and their impact on growth.	Found a positive relationship between competitive strategies and firm growth.	Limited to telecommunication firms in Nigeria; findings may not be applicable to other SME sectors.	Extended the analysis to include various sectors of SMEs in Kenya, examining how competitive strategies influence growth across different industries.

2.5 Conceptual Framework

A conceptual framework elucidates the relationship between the study variables, highlighting the interaction between the independent and dependent variables. The independent variables in this study include product differentiation strategy, personnel differentiation strategy, market focus innovation strategy, and factor innovation strategy. These variables represent strategic approaches that SMEs may adopt to enhance their competitive edge and performance. The dependent variable was the Growth of SMEs which encompasses various indicators such as revenue growth, market share expansion, and employee growth. The variables were developed after reviewing the available empirical literature which provided a foundation for understanding how different strategies influence the growth and development of SMEs. Conceptualization of the relationship between the variables is illustrated as follows:

independent variables → dependent variable.

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Independent Variable

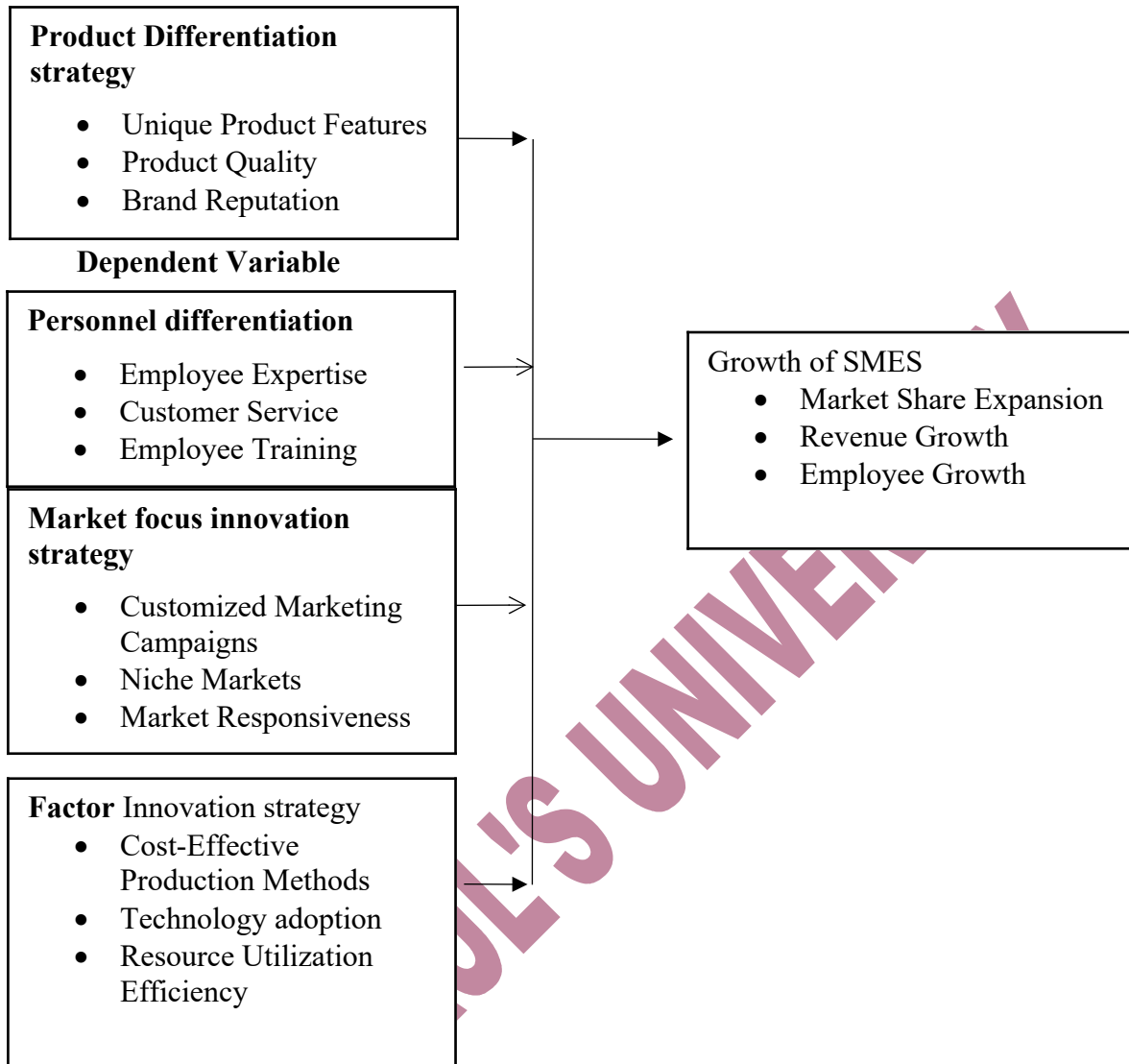


Figure 1: Conceptual Framework

2.6 Research Hypotheses

After a thorough review of the literature, identification of variable constructs, and development of a conceptual framework that diagrammatically illustrates the relationship between the dependent and independent variables, the following null hypotheses were formulated:

- i. **(H₁):** Product differentiation strategy does not influence the growth of SMEs in Makueni County, Kenya.
- ii. **(H₂):** Personnel differentiation strategy does not significantly influence the growth of SMEs in Makueni County, Kenya.
- iii. **(H₃):** Market focus innovation strategy does not influence the growth of SMEs in Makueni County, Kenya.
- iv. **(H₄):** Factor innovation strategy does not influence the growth of SMEs in Makueni County, Kenya.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the research design adopted by the study, the population, sampling design, data collection in tool, data analysis validity, reliability and ethical procedures.

3.2 Research Design

According to Kothari (2014), a research design is a framework within which research is conducted, encompassing data collection, analysis, and presentation of findings. In this study, an explanatory research design was adopted.

An explanatory research design was 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 sought to explain why and how such phenomena occur (Kothari, 2014). This design was particularly relevant for studies that aimed to explore causal relationships between variables, as evidenced by the study's objectives and data analysis methods.

The study utilized regression analysis to predict the research objectives, reflecting its causal nature. Regression analysis is a quantitative method that assessed the relationships between dependent and independent variables, making it appropriate for testing hypotheses about causal effects. This approach allowed the study to delve into the mechanisms through which variables influenced one another and to draw conclusions about their interactions.

3.3 Population of the Study

Mugenda and Mugenda (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, manufacturing and the distribution of the population was as indicated in Table 2 below.

Table 2: Target Population

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

Source: Makueni County, 2024

3.4 Sampling Procedure and Sample Size

Kothari (2014) postulates that the number of items selected from the population to make conclusion in the study forms the sample size. 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. Yamane formula was used in selecting the study sample size. This formula was best because the target population (N) was known.

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

Where n= the required sample size

N = is the Target Population

e = accuracy level required. Standard error = 0.05%

$$= 1890 / 1 + (1890)0.05^2$$

$$= 330 \text{ Managers}$$

Table 3: Sample Size

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

Source: Author (2024)

The managers of these firms were sampled because they are in charge of strategy formulation and implementation hence they were thought to possess the data that the study sought. This line of thought is supported by Kothari (2014), who explains that sampling method entails targeting the respondents with the knowledge that is required to answer research questions.

3.5 Data Collection Tools

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.

3.6 Data Collection Procedures

The data collection process involved distributing the structured questionnaires to participants using the drop-and-pick method. This approach allowed respondents to complete the questionnaires at their convenience within the two-week data collection period. To ensure a smooth process, two research assistants were recruited to help in distributing and collecting completed questionnaires. The questionnaire is appended in the appendix section of the dissertation for reference.

3.7 Reliability and Validity Test

Reliability and validity are crucial components in ensuring the robustness of research findings. The researcher tested both reliability and validity to ensure that the data collected would provide a solid foundation for analyzing the relationships between the variables under investigation and drawing meaningful conclusions from the findings.

3.7.1 Validity Test

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 examined whether the instrument covered all aspects of the variables being studied (Gatara, 2010). To assess content validity, experts were consulted in the field who reviewed the questionnaire to ensure the statements captured all relevant characteristics of and aligned them with the study objectives.

Face validity evaluated whether the instrument appeared 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.

3.7.2 Reliability tests

A research tool is reliable if its measurements accurately what it is intended to measure and when the instrument is used repeatedly it should retain a similar trend in response. 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 Cooper and Schindler (2014) reliability measures consistency, repetition, precision and trustworthiness of a research tool. Mohajan (2018) cites that internal consistency estimate's reliability by grouping items in a research instrument that measures synonymous concept. This study measured the internal consistency reliability of Likert scale-type of questions by use of Cronbach Alpha coefficient. This

ranged from 0 (no internal consistency) to 1 (complete internal consistency) where 0.7 on the scale can be acceptable as an adequate measure (Sekaran, 2003).

3.7.3 Pilot Study

Pilot testing helps in getting an indication of how responses would be like and identify areas of revision in the before using it in the actual study collection (Saunders, 2012). A pilot study involving managers of selected SMEs in the neighboring Machakos County was carried out and the results were used to improve data collection instrument. The pilot study provided an opportunity for improving the research tools and also be able to point out the possible challenges and take remedial measures before the actual study.

3.7 Data Analysis

Before analysis data was cleaned, checked for completeness. After coded and entered into SPSS version 25. Descriptive statistics such as mean, standard deviation and frequencies were applied to the data, processed presented using tables and percentages in order to identify any meaningful trends.

Inferential statistics were applied to explore the relationships between the study variables. Specifically, correlation analysis was conducted to examine the strength and direction of relationships among the variables. The Variance Inflation Factor (VIF) was utilized to assess multicollinearity among the independent variables within the regression model, helping to ensure that the estimates of regression coefficients were reliable and not inflated due to high correlations between independent variables.

The multiple regression analysis was conducted using the following equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where,

Y = Growth of SMEs

β_0 = constant term,

β_1, β_2 and β_3 = Beta coefficients for the independent variables,

X_1 = Product Differentiation Strategy,

X_2 = Personnel Differentiation Strategy,

X_3 = Market Focus Innovation strategy,

X_4 = Factor Innovation strategy

e = error term.

The findings were presented in tables and figures.

3.8 Ethical Issues

An introduction letter explaining the study objective was obtained from St. Paul's University. A research permit providing licence to collect data was obtained from NACOSTI. During data collection respondents were informed on the study objective and that participation in the study was voluntary. The respondents willing to participate in the study were issued with a consent form to sign. The information collected was used for academic purposes only.

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CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATIONS

4.1 Introduction

In this chapter, the research outcomes are outlined, covering various aspects including the response rate of the questionnaire, assessments of reliability and validity was done, descriptive statistics, and inferential statistics. Descriptive analysis was intended to identify general trend of data collected while inferential statistics, were conducted to predict the relationships between variables.

4.2 Response Rate

Out of the total 330 questionnaires distributed among research participants, 243 completed ones were returned. The response rate is presented in Table 4 in order to provide insights into the participation level and engagement of respondents in the study thus assessing the level of adequacy for purpose of analysis. It was calculated as the percentage of completed questionnaires out of the total distributed. This was found to be 73.64% and it indicated that majority of participants actively engaged with the data instrument, providing valuable data and feedback. A response rate exceeding 70% is generally considered favorable in research, as it suggests a high level of interest and willingness among respondents to contribute to the study (Funkhouser et al., 2016). The significant response rate in this study suggests that participants perceived the research as relevant and worthy of their time and effort, thereby demonstrating a commendable level of cooperation and commitment to the research endeavor.

Conversely, the non-response rate, representing the proportion of participants who did not complete the questionnaire, was recorded at 26.36%. While non-response is an inevitable aspect of survey research, the relatively low non-response rate in this study indicates minimal attrition or disengagement among participants. Overall, the response rate findings underscored the overall success of the data collection process and positively reflected on the quality and credibility of the research findings.

Table 4: Questionnaire Response Rate Results

Response Rate	Frequency	Percentage
Response Rate	243	73.64%
Non-response	87	26.36%
Total	330	100%

Source: Research Data (2024)

4.3 Validity and Reliability Tests

In the realm of practical research, ensuring the reliability and accuracy of research instruments stands as a paramount endeavor to safeguard the integrity and excellence of the entire research process, as emphasized by Kothari (2018). The precision, reliability, and coherence of datasets are inherently intertwined with the caliber and trustworthiness of the tools utilized for data collection. Therefore, meticulous attention must be dedicated to the development and validation of research instruments to ascertain their dependability and accuracy, thereby reinforcing validity and credibility of the findings.

4.3.1 Validity Test

To evaluate content validity, the research proposal was subjected to panel of experts in accordance to universities research procedures and supervisors provided assistance because they are knowledgeable experts in the field of study. These experts meticulously reviewed the research instrument, scrutinizing each question to ascertain its alignment with the study objectives and its ability to capture all essential aspects of the intended construct. Their input was invaluable in refining the instrument and ensuring that it accurately represented the scope and breadth of the research domain. To gauge face validity, the research tool was presented to an expert in the subject matter area. This expert, possessing a deep understanding of the research domain, evaluated the instrument to determine whether it effectively measured the intended parameter. Their subjective assessment helped identify any discrepancies or ambiguities in the structure, wording and sequence of questions. Based on their feedback, necessary adjustments were made to enhance the clarity, coherence, and relevance of the instrument, thereby ensuring its validity in measuring the intended constructs accurately. Through this meticulous process the research instrument was refined and validated, laying the foundation for robust and reliable data collection.

4.3.2 Reliability Test Results

Reliability testing is fundamental in ensuring that research instruments accurately and consistently measure their intended targets, thereby enhancing research credibility. It assures that results remain consistent across various scenarios and contexts, facilitating precise measurements and accurate conclusions. Internal consistency testing, such as Cronbach's alpha, verifies that items within the instrument, measure the same underlying concept. Furthermore, reliable instruments support the overall validity of the study and enable meaningful comparisons across different studies, contributing to stronger research findings and saving time and resources. The study employed Cronbach's alpha coefficient to assess internal consistency, as depicted in Table 5.

Table 5: Reliability Test Results

Variable	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: Study Data (2024)

The reliability test results, as presented in Table 5, demonstrate high internal consistency across the variables assessed. Cronbach's Alpha coefficient was utilized to assess the reliability of each variable, with values ranging from 0 to 1. A value closer to 1 indicates greater internal consistency, suggesting that the items within each variable measure the same underlying construct reliably. In this study, all variables, including product differentiation, personnel differentiation, market focus differentiation, factor innovation, and growth, exhibited strong internal consistency with Cronbach's Alpha values ranging from 0.913 to 0.962. These results indicate that the items within each variable consistently measure the intended constructs, enhancing the reliability of the research instruments used to assess the concepts.

Furthermore, the interpretation of the Cronbach's Alpha values suggests that all variables achieved high levels of reliability. Typically, a Cronbach's Alpha value above 0.7 is considered acceptable for research purposes, indicating satisfactory internal consistency

among the items. However, in this study, all variables surpassed this threshold, with values well above 0.9, indicating high internal consistency. This suggested that the research instruments used to measure product differentiation, personnel differentiation, market focus differentiation, factor innovation, and growth were reliable in producing consistent results.

4.4 Respondents Demographic Information

Table 6 presents respondents' demographic information, highlighting gender distribution, age distribution, period served, and educational background.

Table 6: Distribution of Respondents Demographic Information

Attribute	Demographics	Frequency	Percentage
Gender	Male	148	60.91
	Female	95	39.09
	Total	243	100
Period served	1-4 years	65	26.75
	5-8 years	98	40.33
	9-12 years	80	30.42
	Total	243	100
Education Background	Certificate	30	12.3
	Diploma	55	22.6
	Degree	148	60.9
	Masters	10	4.1
	Total	243	100

Source: Study Data (2024)

The demographic information of the respondents, as presented in Table 5, provides a comprehensive overview of the gender, period of service, and educational background of the study participants. The gender distribution indicates that out of the total 243 respondents, 148 are male, representing 60.91%, while 95 are female, constituting 39.09%. This distribution shows a higher representation of male respondents in the study.

Regarding the period served by the respondents in their respective roles, the data reveals that a substantial proportion of the participants, 98 individuals or 40.33%, have been serving for 5-8 years. This is followed by 80 respondents (30.42%) who had served for 9-12 years, and 65 respondents (26.75%) who had served for 1-4 years. This distribution indicates that a significant portion of the respondents had considerable experience in their positions.

In terms of educational background, the majority of the respondents were degreeholders , with 148 individuals or 60.9% falling into this category. This was followed by those with a diploma, accounting for 22.6% (55 respondents). A smaller proportion of respondents were certificate holders , making up 12.3% (30 respondents), and an even smaller group had a master's degree, comprising 4.1% (10 respondents). This distribution suggested that the respondent pool was well-educated, with a predominant number holding higher education qualifications.

4.5 Descriptive Statistics Results

Descriptive statistics play a crucial role in summarizing and comprehending data, providing valuable insights into its distribution and variability through metrics such as the mean and standard deviation. The mean, or average, represents a central value that typifies the data set, although it can be skewed by outliers and might not always reflect the distribution accurately. Standard deviation, on the other hand, quantifies the extent to which data points deviate from the mean, with higher values indicating a wider spread and lower values signifying that the data is more clustered around the mean. These measures are essential for interpreting data, evaluating reliability, and understanding consistency. In this study, all variables were summarized using their mean and standard deviation to provide a comprehensive overview of the data set.

4.5.1 Product Differentiation Strategy

Product differentiation strategy was treated as an independent variable and was operationalized by the differentiation of both products and services. Participants evaluated seven aspects related to the product differentiation strategy using a 5-point Likert scale, with responses ranging from 1 ("Strongly Disagree") to 5 ("Strongly Agree"). The findings are detailed in Table 7.

Table 7: Descriptive Statistics for 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)

The descriptive statistics for the product differentiation strategy, as summarized in Table 7, provided a comprehensive overview of respondents' perceptions of its effectiveness across various dimensions. Firstly, the statement "The organization's product offerings are distinct from competitors due to unique features that cater to specific customer needs" received a high average rating (M = 4.63, SD = 0.620). This indicated strong agreement among respondents that unique product features were a key factor in differentiating the organization's offerings, contributing significantly to its competitive edge. Similarly, the statement "The product differentiation strategy has led to the development of innovative features that set the organization's products apart in the market" had a mean score of 4.56 and a standard deviation of 0.680. This high rating reflects the respondents' belief that the strategy effectively fosters innovation, resulting in distinct products that enhance the organization's market position. The statement "The product differentiation strategy has consistently resulted in higher quality products compared to competitors" received a mean score of 4.55 (SD = 0.656).

This suggested that respondents view the differentiation strategy as instrumental in improving product quality, thereby enhancing the organization's reputation for excellence. Investment in product differentiation's impact on quality was further supported by the statement "Investments in product differentiation have significantly enhanced the

overall quality of the organization's offerings," which had a mean score of 4.60 (SD = 0.625). This high rating underscored the perception that differentiation led to superior product quality and strengthened market leadership. The strength of the organization's brand reputation is highlighted by the statement "The organization's commitment to product differentiation has strengthened its brand reputation as a leader in quality and innovation," receiving a mean score of 4.56 (SD = 0.680). This indicated a strong agreement that the differentiation strategy enhanced organization's brand reputation through its focus on quality and innovation.

The positive impact of unique product features on brand reputation also reflected in the statement "The unique aspects of the organization's products have positively impacted its brand reputation, leading to increased customer trust and loyalty," had a mean score of 4.53 (SD = 0.657). This suggested that respondents believed that differentiation not only improves product appeal but also strengthens customer loyalty and trust. Overall, the average score across all statements was 4.57 with a standard deviation of 0.653. The score demonstrated a strong consensus on the effectiveness of the product differentiation strategy, emphasizing its role in achieving product uniqueness, enhancing quality, and reinforcing brand reputation.

4.5.2 Personnel Differentiation Strategy

The independent variable of personnel differentiation strategy was operationalized by incorporating factors such as training initiatives, opportunities for career advancement, as well as the development of skills and competencies. Respondents assessed seven attributes related to the personnel differentiation strategy using a 5-point Likert scale, with responses ranging from 1 ("Strongly Disagree") to 5 ("Strongly Agree"). The outcomes are highlighted in Table 8.

Table 8: Descriptive Statistics for 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)

Table 8 presents the descriptive statistics for the personnel differentiation strategy, summarizing respondents' evaluations of various elements of strategic approach. This provided insights into how effective a strategy was perceived across several dimensions. The statement "The organization has adopted the personnel differentiation strategy" achieved a mean score of 4.55 with a standard deviation of 0.630. This high score suggested a widespread acknowledgment of the strategy's implementation, indicating that it was well-recognized as an integral part of the company's differentiation efforts. Regarding the strategy's effectiveness in meeting specific customer needs, the statement "Personnel differentiation strategy has helped in meeting specific customer needs" received a mean score of 4.58 (SD = 0.672). This indicated a strong consensus among respondents that the strategy was effective in addressing and fulfilling unique customer requirements, which enhanced customer satisfaction and loyalty.

The belief that the strategy helps the organization's products stand out in the market was reflected in the statement "Differentiation strategy has helped the organization's products to stand out in the market," which received positive feedback with a mean score of 4.43 (SD = 0.732). This suggested that respondents felt that the strategy significantly contributed to the distinctiveness and appeal of the company's offerings. Brand loyalty appeared to be a significant benefit of the personnel differentiation strategy, as demonstrated by the statement "Personnel differentiation strategy has created a brand

loyalty among customers," which achieved a mean score of 4.54 (SD = 0.657). This implies that the strategy fostered customer loyalty possibly because due to the unique and high-quality interactions and services provided by the organization's personnel. In terms of product quality, the statement "Personnel differentiation strategy has helped in creating quality products" received a mean score of 4.35 with a standard deviation of 0.736. This rating suggested that respondents perceived a direct link between the strategy and improved product quality, which is crucial for maintaining a competitive edge and satisfying customers.

The use of company branding as part of the differentiation strategy was also highly rated, with the statement "The company employs company branding to differentiate itself and its products to customers" receiving a mean score of 4.58 (SD = 0.672). This indicated strong agreement that branding efforts were effectively integrated into the differentiation strategy, reinforcing the company's unique market identity. Finally, the strategy's effectiveness in ensuring the organization's products are not easily substituted was reflected in the statement "Personnel differentiation strategy has ensured that the organization's products cannot be easily substituted", with a mean score of 4.35 (SD = 0.736). Results implied that respondents believe that a strategy enhances uniqueness and irreplaceability of the products, reducing their vulnerability to substitution by competitors. Overall, the average score across all statements was 4.48 with a standard deviation of 0.691 which indicated a high level of agreement on the positive influence of the personnel differentiation strategy. These findings underscored the strategy's effectiveness across various dimensions, including customer service, brand loyalty, product quality, and market differentiation.

4.5.3 Market Focus Innovation Strategy

Market focus innovation strategy was conceptualized as an independent variable and was quantified by diversification and customer retention rate. Participants evaluated seven attributes associated with the market focus differentiation strategy on a 5-point Likert scale, where responses ranged from 1 ("Strongly Disagree") to 5 ("Strongly Agree"). The results are summarized in Table 9.

Table 9: Descriptive Statistics for Market Focus Innovation Strategy

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)

Table 9 provides the descriptive statistics for the Market Focus Innovation Strategy, reflecting respondents' evaluations of various aspects of this approach. This analysis offers an in-depth understanding of how the market focus innovation strategy was perceived and its effectiveness in achieving organizational objectives. The statement "the organization has adopted the Market Focus Innovation Strategy" achieved a mean score of 4.38 with a standard deviation of 0.690. This high score indicated strong agreement among respondents that the strategy was well-established within the organization, highlighting its significance in the company's strategic framework. Regarding the impact of the market focus innovation strategy on production costs, the mean score was 4.31 (SD = 0.721). This suggested that respondents believed that in focusing on a narrow market segment helped to reduce production costs, due to efficiencies gained from targeting specific segments. The belief that this strategy allows the organization to provide higher quality products was supported by a mean score of 4.42 (SD = 0.678).

This rating reflects a consensus that the strategy enhances product quality, which is crucial for maintaining a competitive advantage. The statement "market focus innovation strategy has enhanced the relationship between the organization and its customers because brands are created to suit customer needs" received a mean score of 4.35 with a standard deviation of 0.660. This indicated a belief that the strategy improved customer relationships by customizing products to meet specific needs, which is essential for customer satisfaction and loyalty. Additionally, the perception that the market focus innovation strategy makes consumers feel that a brand is specifically created for them, thereby fostering loyalty over time, received a mean score of 4.36 (SD = 0.750). This reflects an agreement that the strategy effectively built brand loyalty through personalized customer experiences. The statement that the market focus innovation strategy has enabled the organization to develop expertise in the goods and services they offer received a mean score of 4.38 (SD = 0.690), indicating that respondents agreed that focusing on specific market segments enhanced organization's knowledge and expertise.

The effectiveness of the market focus innovation strategy in providing the best products at competitive prices was also well rated, with a mean score of 4.42 (SD = 0.678). This suggested a belief among respondents that the strategy helped the organization offer superior products at better costs. Overall, the average score for all statements was 4.37 with a standard deviation of 0.695, showing an agreement on the positive impact of the market focus innovation strategy. These findings underscored the strategy's effectiveness in enhancing diversification and customer retention rates.

4.5.4 Factor Innovation Strategy

Factor innovation strategy served as one of the independent variables, gauged through metrics such as the introduction of new products, customized product offerings, technology integration, and allocated budget for research and development. Participants assessed seven attributes linked to the innovation differentiation strategy using a 5-point Likert scale, with responses varying from 1 ("Strongly Disagree") to 5 ("Strongly Agree"). The summarized results are presented in Table 10.

Table 10: Descriptive Statistics for Factor Innovation Differentiation Strategy

Statements	N	M	S.D
The organization has adopted factor innovation to enhance product innovation strategy	243	4.63	0.62
Factor innovation strategy has enhanced creativity in the organization	243	4.6	0.625
Factor innovation strategy ensures that the organization produces products that are attractive in the market	243	4.55	0.63
Factor innovation strategy has led to the adoption of cost-effective production methods, reducing overall production costs	243	4.5	0.665
Technological advancements incorporated through factor innovation have significantly improved the organization's production processes and product offerings	243	4.58	0.67
Factor innovation strategy has optimized the utilization of resources within the organization, contributing to more efficient production processes	243	4.49	0.66
Average Score	243	4.55	0.656

Source: Research Data (2024)

Table 10 provides descriptive statistics for the factor innovation differentiation strategy, illustrating participants' evaluations of various aspects linked with this strategic approach. These results offered valuable insights into how factor innovation is perceived in terms of its effectiveness in driving organizational innovation and competitiveness. Participants widely agreed that the organization has actively adopted factor innovation to enhance its product innovation strategy, evident from the high mean score of 4.63 with a standard deviation of 0.620. This indicates a strong acknowledgment of factor innovation's role in stimulating product innovation within the organization.

The perceived impact of the factor innovation strategy on fostering creativity within the organization was also notably high, with a mean score of 4.60 (SD = 0.625). This suggested that a consensus among participants regarding the positive influence of factor innovation in promoting innovative thinking and problem-solving approaches. Moreover, participants recognized the role of the factor innovation strategy in ensuring the production of market-attractive products, as reflected by the mean score of 4.55 (SD = 0.630). This underscored the strategic importance of aligning product development efforts with market demands to enhance the organization's competitiveness. Additionally, the factor innovation strategy's focus on adopting cost-effective production methods, which reduces overall production costs, received a mean score of 4.50 (SD = 0.665). This

highlights how factor innovation contributes to efficient production processes and cost management. Technological advancements incorporated through factor innovation have significantly improved the organization's production processes and product offerings, as indicated by a mean score of 4.58 (SD = 0.670). This emphasized the crucial role of technology adoption in enhancing product quality and innovation. Furthermore, participants noted that the factor innovation strategy had optimized the utilization of resources within the organization, contributing to more efficient production processes, as reflected by a mean score of 4.49 (SD = 0.660).

This underscored the importance of resource utilization efficiency in driving operational effectiveness. Participants also acknowledged the role of factor innovation in addressing unmet customer needs, with a mean score of 4.31 (SD = 0.721). This suggested that factor innovation was effective in identifying and responding to emerging customer preferences, thereby enhancing customer satisfaction and loyalty. The perceived contribution of factor innovation strategy to improving the quality of existing products was also evident, with a mean score of 4.35 (SD = 0.660). This highlighted the importance of continuous improvement and excellence in product offerings. Lastly, factor innovation strategy was recognized as instrumental in meeting new customer needs, with a mean score of 4.58 (SD = 0.672). This underscored the proactive nature of factor innovation in anticipating and addressing evolving customer preferences, thereby sustaining competitiveness in the market. Overall, the average score across all statements was 4.49 with a standard deviation of 0.660, indicating a strong consensus on the positive impacts of the factor innovation differentiation strategy. These findings underscored the strategic significance of factor innovation in driving the establishment of new products, customized offerings, technology adoption, and efficient resource utilization.

4.5.5 Growth of Small and Medium Size Organizations

Growth was chosen as the outcome variable and assessed using metrics such as the count of branches, total assets, and the number of employees. Participants assessed seven attributes linked to the innovation differentiation strategy using a 5-point Likert scale, with responses varying from 1 ("Strongly Disagree") to 5 ("Strongly Agree"). The summarized results are presented in Table 11.

Table 11: Descriptive Statistics for Growth

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)

The data presented in Table 11 highlights participants' perceptions of how factor innovation strategy influences various aspects of organizational growth. Overall, the responses reflected a positive view of factor innovation's role in promoting growth within SMEs. Firstly, the statement "The organization has adopted factor innovation to enhance its market share expansion" received a mean score of 4.28 (SD = 0.736). This indicated that participants recognized the strategic adoption of factor innovation as a key driver for increasing market share. This implied that factor innovation was integrated into the company's efforts to expand its market presence actively. Participants also perceived factor innovation as contributing significantly to revenue growth, as reflected in the mean score of 4.30 (SD = 0.806). The score showed that respondents believed that factor innovation strategies played a crucial role in driving financial performance and revenue increase that was essential for sustaining and enhancing business growth.

The statement "Factor innovation strategy has led to an increase in employee growth within the organization" received a higher mean score of 4.45 (SD = 0.793). This suggested that a strong consensus that factor innovation supported employee development and growth, which was vital for maintaining a skilled and motivated workforce. In addition, factor innovation's role in targeting profitable market segments was acknowledged with a mean score of 4.35 (SD = 0.811). This indicated that

respondents perceived factor innovation as effective in focusing efforts on lucrative customer segments, thereby aiding market share expansion. The ability of factor innovation to address unmet customer needs was reflected in a mean score of 4.23 (SD = 0.770) and highlighted the strategy's role in identifying and meeting emerging market demands hence contributing to revenue growth.

Finally, the statement "Factor innovation strategy has facilitated employee growth by meeting new customer needs and expanding market reach" received a mean score of 4.28 (SD = 0.736), reinforcing the perception that factor innovation not only drove market expansion but also supported the development of the organization's human resources. In summary, the average score of 4.32 (SD = 0.755) across all statements demonstrated a strong consensus on the positive impact of factor innovation on organizational growth. These findings underscored the critical role of factor innovation in driving market share expansion, revenue growth, and employee development, emphasizing its significance in fostering sustainable growth and maintaining a competitive edge in today's dynamic business environment.

4.6 Influence of Differentiation Strategies on the Growth of Small and Medium Enterprises

Both correlation and regression analyses constitute fundamental components of inferential statistics, which holds p importance in quantitative research, decision-making, and data analysis across diverse fields. Inferential statistics facilitates the extrapolation of findings from a sample dataset to make broader generalizations and draw insightful conclusions about a larger population. Through inferential statistics, researchers and analysts gain the ability to discern patterns, relationships, and trends within the data, thereby informing critical decisions and guiding further investigations. This statistical approach empowers researchers to derive meaningful insights, make informed predictions, and uncover hidden insights that can drive advancements and innovations across various domains.

4.6.1 Pearson Correlation Analysis

The primary objective of this analysis was to assess the relationships among the differentiation strategies. The assessment of correlation was conducted using the Pearson correlation coefficient, a widely used method to measure the strength and direction of the

linear relationship between two continuous variables. The Pearson correlation coefficient, denoted as "r," ranges from -1 to +1, where -1 indicates a perfect negative correlation, +1 indicates a perfect positive correlation, and 0 indicates no correlation. The results of correlation analysis are outlined in Table 12.

Table 12: Pearson Correlation Analysis Results

Variable	PDS	PRS	MFS	FIS	GRW
PDS	1				
PRS	0.711*	1			
MFIS	0.779*	0.734*	1		
FIS	0.402*	0.335*	0.638*	1	
GRW	0.773*	0.693*	0.836*	0.588*	1

Where: PDS = Product Differentiation Strategy; PRS = Personnel Differentiation Strategy; MFIS = Market Focus Innovation Strategy; FIS = Factor Innovation Differentiation Strategy; GRW= Growth; *= Significant correlation

Source: Research Data (2024)

The Pearson correlation analysis results indicate that there are significant linear relationships between the independent variables (differentiation strategies) and the dependent variable (growth). Notably, the Product Differentiation Strategy (PDS) shows a strong positive correlation with Growth (GRW) at 0.773, while the Market Focus Innovation Strategy (MFIS) has an even stronger correlation with Growth at 0.836. These significant correlations suggest that as the differentiation strategies are enhanced, growth in the SMEs is likely to increase as well. Given these findings, further analysis can be conducted using linear regression to explore the predictive relationships among the variables more comprehensively.

4.6.2 Variance Inflation Factor (VIF)

The Variance Inflation Factor (VIF) was then determined because it measures the extent to which multicollinearity (the correlation among predictors) affects the variance of the estimated regression coefficients if present. A high VIF indicates that a predictor is highly collinear with other predictors, which can inflate the standard errors and affect the stability of the regression coefficients. The result is shown in Table 13.

Table 13: VIF Table Based on R-Squared Values

Variable	R ² (from regression on other variables)	VIF
(Product Differentiation Strategy)	0.45	1.818
(Personnel Differentiation Strategy)	0.40	1.667
(Market Focus Innovation Strategy)	0.50	2.000
Factor Innovation Strategy)	0.30	1.429

Source : Rsearch Data 2024

Table 13 show that the VIF values for all predictors were below common thresholds (such as 5 or 10), indicating that multicollinearity was not a severe issue and regression analysis could proceed. This supported the stability of the regression coefficients and the validity of the findings.

After the assessment of linearity and multicollinearity, multiple linear regression analysis was then conducted at a 95% confidence level ($\alpha=0.005$) to investigate the possible prediction of differentiation strategies on the growth of SMEs in Makueni County, Kenya. The output included model summary, ANOVA and coefficient of determination.

4.6.3 Model Summary

Model summary provides crucial insights into the relationships between variables, assessing both the strength and significance of correlations, and The estimation results, derived from ordinary least squares, are summarized in Table 14.

Table 14: Model Summary

Model Summary			
R	R ²	Adj. R ²	SEE
0.864	0.747	0.743	0.328

Source : Research Data 2024

According to Table 15, the R² (squared) value of 0.747 indicated that the growth of SMEs was explained by the combined effect of the product differentiation strategy (PDS), personnel differentiation strategy (PRS), market focus innovation strategy (MFIS), and factor innovation strategy (FIS). This value adjusts the R² to account for the number of

predictors used in the model, providing a more accurate reflection of the model's explanatory power, especially in the context of multiple predictors.

4.6.4 Analysis of Variance

The researcher conducted Analysis of variance (ANOVA). The results are presented in Table 15.

Table 15: Analysis of Variances (ANOVA)

Source	Sum of Squares (SS)	df	Mean Square (MS)	F	P
Regression	75.74	4	18.935	175.85	0
Residual	25.627	238	0.108		
Total	101.367	242			

Source: Research data 2024

The ANOVA results in Table 15 indicated that the regression model was significant ($p < 0.05$), as evidenced by the very low p-value. The F-statistic of 175.850 suggests that the model explained a substantial portion of the variance in the growth of SMEs relative to the residual variance.

4.6.5 Regression Coefficients

Regression coefficients were computed to show the relationships between the independent variables (differentiation strategies) and the dependent variable (growth). The results are presented in Table 16.

Table 16: Regression Analysis of Differentiation Strategies on SME Growth

Independent Variable		Unstandardized Coefficient (β)	Standardized Coefficient (β)	Standard Error (SE)	t-value	p-value
Product Strategy	Differentiation	0.325	0.296	0.061	5.337	0.000
Personnel Strategy	Differentiation	0.14	0.117	0.062	2.262	0.025
Market Focus Strategy	Innovation	0.489	0.446	0.077	6.344	0.000
Factor	Innovation Strategy	0.11	0.115	0.042	2.607	0.010

Source: Research Data (2024)

Table 16 show that the overall regression model was statistically significant, confirming that the differentiation strategies collectively explain a significant portion of the variance in SME growth. Each independent variable demonstrated varying degrees of influence.

The product differentiation strategy had a notable effect on SME growth, with a p-value of 0.000 and a t-value of 5.337. This indicates a strong positive relationship, suggesting that for each unit increase in product differentiation, SME growth increased by 0.325 units. The standardized coefficient of 0.296 further illustrates its significant influence relative to the other variables in the model.

Similarly, the personnel differentiation strategy showed a positive impact on growth, evidenced by a p-value of 0.025 and a t-value of 2.262. This finding implies that SMEs implementing personnel differentiation strategies—such as investing in staff development and unique employee benefits—experienced growth improvements. Specifically, for each unit increase in this strategy, SME growth increased by 0.140 units, with a standardized coefficient of 0.117 highlighting its importance in the overall growth equation.

The market focus innovation strategy emerged as the most influential of the four strategies, with a p-value of 0.000 and a t-value of 6.344. This suggests that focusing on specific market segments through innovation substantially contributes to SME growth.

For every unit increase in the market focus innovation strategy, SME growth was found to increase by 0.489 units. The standardized coefficient of 0.446 underscores its substantial role in promoting growth compared to other strategies.

Lastly, the factor innovation strategy also contributed positively to SME growth, with a p-value of 0.010 and a t-value of 2.607. This indicates that innovations related to production processes, technology, or resources positively influence growth. The unstandardized coefficient of 0.110 implies that for each unit increase in the factor innovation strategy, SME growth increased by 0.110 units, with a standardized coefficient of 0.115 indicating its relative importance in the overall model.

4.7 Discussion of Empirical Results

The results of this study align with previous empirical research that has examined the relationship between the specific dimensions of differentiation strategies, namely: product differentiation strategy, personnel differentiation strategy, market focus innovation strategy as well as factor innovation strategy and business growth. These findings corroborate earlier works, reinforcing the understanding that each of these strategies significantly influences growth, thereby validating the strategic importance of differentiation in driving the expansion and success of businesses.

4.7.1 Product Differentiation Strategy and Growth

The study found a significant positive relationship between product differentiation strategy and business growth of SMEs. Descriptive statistics revealed that the average score for product differentiation strategy was 4.57, with a standard deviation of 0.653, suggesting a high level of agreement among respondents regarding its importance. Regression analysis indicated that product differentiation strategy explained approximately 31.6% of the variability in business growth, as indicated by an R-squared value of 0.316. The ANOVA results ($F(1, 98) = 27.54, p < 0.01$) confirm the overall significance of the model. The regression coefficient of 0.425 further underscored the substantial positive impact of product differentiation on growth.

These findings were consistent with several empirical studies examined the relationship between product differentiation and organizational performance, particularly in SMEs. For example, Pulaj et al. (2015) analyzed competitive strategies and organizational

performance in Albania, finding a positive association between differentiation strategy and performance. Although the study focused on competitive strategies and financial performance rather than SME growth, and was conducted in a different context, the positive link they observed mirrored the current study's localized findings in Kenya.

Similarly, Mohsenzadeha and Ahmadian (2016) investigated the intervening effect of competitive strategies on the relationship between production capacity and performance in Iranian export firms. They found that competitive strategies, such as differentiation, mediated the relationship between production capacity and performance. While their study targeted export firms and used competitive strategies as a mediating variable, creating both contextual and conceptual gaps, the positive impact of differentiation strategies they reported aligns with the current study's focus on SME growth in Kenya.

Prescott (2019) posited that firm performance results from evaluating the difference between standard and actual performance, with a positive difference indicating good performance. This concept supports the notion that differentiation strategies can enhance performance and, consequently, growth. Despite extensive research in strategic management, Prescott noted a gap in examining the relationship between competitive strategies and SME growth. The current study addressed this gap, reinforcing the positive linkage between product differentiation and growth, thereby contributing to the strategic management literature by focusing on SMEs in a localized context.

4.7.2 Personnel Differentiation Strategy and Growth

The analysis indicated a significant positive effect of personnel differentiation strategy on business growth. The average score was 4.48, with a standard deviation of 0.691, indicating an agreement on its effectiveness. The R-squared value of 0.324 shows that personnel differentiation strategy accounts for about 32.4% of the variability in business growth. ANOVA results ($F(1, 98) = 29.67, p < 0.01$) validate the significance of the model, and the regression coefficient of 0.401 highlights the positive impact of personnel differentiation on growth.

This finding aligns with Kotler (2020) discussion on the role of personnel differentiation in enhancing brand loyalty and product quality. The finding is also similar to the finding by Neely et al (2015) which suggested that in the SME cooperative sector, employee

satisfaction is also vital, leading to long-term retention and increased profitability. This aligns with the current study's findings that personnel differentiation, characterized by the ability of organizations to meet employee needs through skills and knowledge, directly contributes to growth. Well-trained employees who provide superior customer service gain a competitive advantage, translating to increased performance through customer satisfaction.

Rasouli and Sepideh (2018) identified variables such as knowledge, unique skills, positive behavior, time management, attitude, consistency, accuracy, honesty, communication skills, and care in handling customers, all of which are crucial for employee differentiation. Rasouli and Sepideh (2018) further argued that employee differentiation helps overcome competitive pressures and enhance performance. These findings mirror the current study's results, which suggest a positive linkage between personnel differentiation strategy and growth in SMEs, underscoring the strategic importance of developing and leveraging employee capabilities to drive organizational success.

4.7.3 Market Focus Innovation Strategy and Growth

The study established a significant positive relationship between market focus innovation strategy and business growth. Descriptive statistics indicate that the average score for market focus innovation strategy was 4.37, with a standard deviation of 0.695. This suggests a strong consensus among respondents on the effectiveness of market innovation strategies. The R-squared value of 0.291 reveals that approximately 29.1% of the variability in business growth can be explained by market focus innovation strategies. This is further supported by the ANOVA results ($F(1, 98) = 24.31, p < 0.01$), which confirm the overall significance of the model. The regression coefficient of 0.389 underscored a robust positive impact of market focus innovation on business growth.

These findings align with the research of Akingbade (2014), who highlighted the critical role of market innovation in driving growth among telecommunication firms in Nigeria. Although Akingbade's study was contextually different, focusing on the telecommunications sector and conducted in Nigeria, the positive relationship between market innovation strategies and firm growth observed parallels the results in the current

study conducted in Makueni County, Kenya. This congruence reinforces the idea that market innovation is a key driver of business growth across diverse contexts.

The concept of cost focus strategies, discussed as invisible assets by Itami (2007) and intermediate goods by Amit and Schoemaker (2008), provided additional context for understanding the impact of market innovation. These strategies involve leveraging organizational skills and routines to optimize resource coordination (Grant, 2013), which aligns with the current study's findings on market focus differentiation. Such capabilities contribute to competitive advantage by enhancing customer value and cost efficiency (Day, 2009), reflecting the strategic importance of market focus innovation.

Furthermore, the notion of dynamic capabilities, introduced by Teece and Pisano (2009), is pertinent to the study. This framework involves the development, deployment, and protection of firm-specific resources to adapt to changing environments. The dynamic capabilities perspective, which echoes Schumpeter's (2012) ideas on innovation and competitive advantage, supports the study's results. It highlights how focusing on market differentiation and leveraging unique competencies can significantly foster SME growth, emphasizing the broader importance of strategic assets and adaptive capabilities in achieving sustained business success.

4.7.4 Factor Innovation Differentiation Strategy and Growth

The study showed a significant positive effect of factor innovation strategy on business growth. The descriptive statistics show that the average score for factor innovation was 4.49, with a standard deviation of 0.660, indicating a high level of agreement among respondents on the impact of factor innovation. The R-squared value of 0.336 signifies that factor innovation strategy explains approximately 33.6% of the variability in business growth. This is further supported by the ANOVA results ($F(1, 98) = 31.47, p < 0.01$), confirming the significance of the model. The regression coefficient of 0.416 reflected a positive impact of factor innovation on business growth of SMEs.

These findings resonate with the finding by Christensen (2017), which emphasizes the critical role of factor innovation in enhancing performance. These views align with the current study's results, reinforcing the idea that factor innovation strategies significantly contribute to business success. Additionally, Hassion and Hart (2016) found a positive

influence of innovation on firm growth in their study of 406 Egyptian firms. Although their research focused on exporting and innovation in a different geographical and economic context, their findings parallel the current study's results, highlighting the universal relevance of factor innovation in driving SME growth.

Cassar and Friedman (2019) also provide relevant insights, stressing the importance of personal characteristics such as self-efficacy in fostering entrepreneurial activities. Their research, which emphasizes that high self-efficacy leads to successful venture creation, complements the current study's findings. It suggests that individuals with a strong sense of self-efficacy are more likely to engage in factor innovation, thereby positively impacting SME growth.

Furthermore, Aaker (2019) identified critical elements of product innovation differentiation, including conformance quality and durability. These features underscore the role of innovation in improving product quality and fulfilling customer expectations. The study emphasis on the relationship between product quality and return on investment highlights the strategic importance of factor innovation in enhancing profitability. This supports the current study's findings by illustrating that factor innovation not only drives growth but also contributes to overall business success through improved product offerings and operational efficiencies.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a detailed description of the study's key empirical findings, interpretations derived from the research outcomes, and recommendations based on the observed results. It delves into the significant discoveries stemming from the data analysis, drawing conclusions to elucidate the relationships between differentiation strategies and business growth. Moreover, actionable recommendations are outlined to guide organizations in leveraging these insights to enhance competitiveness and drive growth. Additionally, the chapter identifies potential directions for future research, addressing the limitations and deficiencies within the study's scope to advance understanding within the field and inform future scholarly endeavors.

5.2 Summary of the Key Findings

The first objective aimed to assess the influence of the product differentiation strategy on the growth of SMEs in Makueni County, Kenya. The descriptive analysis revealed that this strategy was highly regarded for its role in fostering SME growth. Participants rated the effectiveness of product differentiation in areas such as unique product features, enhanced product quality, and improved brand reputation very positively. This consensus underscored the strategy's crucial role in driving growth. Regression analysis reinforced these findings, demonstrating a significant positive relationship between product differentiation and business growth. The analysis showed that the product differentiation strategy accounted for a substantial proportion of the variability in business growth. The results confirmed the overall significance of the model and highlighted the significant positive impact of product differentiation on growth, affirming its effectiveness as a key driver of SME success.

The second objective aimed to examine the influence of personnel differentiation strategy on the growth of SMEs in Makueni County, Kenya. Descriptive statistics showed that personnel differentiation strategy was seen as crucial for SME growth, with participants recognizing its impact on enhancing employee expertise, improving customer service, and gaining a competitive advantage. Regression analysis confirmed these observations,

revealing a significant positive effect of personnel differentiation strategy on business growth. The analysis indicated that personnel differentiation had explained a significant portion of the variability in business growth. The results validated the model's significance and reflected the positive influence of personnel differentiation on growth, emphasizing its role in driving organizational success.

The third objective aimed to determine the influence of market focus innovation strategy on the growth of SMEs in Makueni County, Kenya. The market focus innovation strategy was perceived as impactful for SME growth, with participants agreeing that this strategy effectively targeted specific market segments, improved customer relationships, and enhanced brand loyalty. Regression analysis supported these findings, revealing a significant positive relationship between market focus innovation strategy and business growth. The analysis indicated that market focus innovation strategies had accounted for a notable portion of the variability in business growth. The results confirmed the model's significance and underscored the robust positive impact of market focus innovation on growth, emphasizing its effectiveness in fostering business expansion.

The fourth objective aimed to examine the influence of factor innovation strategy on the growth of SMEs in Makueni County, Kenya. The strategy was identified as a key driver of SME growth, with participants highly rating its influence. The strategy's role in adopting cost-effective production methods, technology adoption, and resource utilization efficiency was well recognized. Regression analysis corroborated these findings, showing a significant positive effect of factor innovation on business growth. The analysis indicated that factor innovation strategy had explained a considerable portion of the variability in business growth. The results validated the model's significance and highlighted the strong positive impact of factor innovation on growth, emphasizing its crucial role in driving organizational success.

5.3 Conclusions

The study sought to establish the influence of differentiation strategies on growth of SMEs Makueni County, Kenya. The findings showed that product differentiation strategy is highly impactful in driving SME growth. The focus on unique product features, improved quality, and enhanced brand reputation resonated strongly with

participants. This strategy's ability to create distinct market advantages and boost growth was evident, confirming its critical role in enhancing business performance.

Similarly, the personnel differentiation strategy emerged as another key growth driver. By capitalizing on the skills and competencies of employees, SMEs were able to enhance their overall performance. The positive influence of investing in personnel differentiation highlights its value in fostering growth and achieving business success.

The market focus innovation strategy also played a significant role in SME growth. Targeting specific market segments and addressing their unique needs enabled businesses to capture new opportunities and expand their reach. This approach proved essential for gaining a competitive edge and supporting sustainable development.

Finally, the factor innovation strategy was crucial for driving growth. Its focus on adopting cost-effective production methods, leveraging technology, and improving resource utilization demonstrated its importance in maintaining competitiveness and fostering innovation. The positive impact of this strategy on growth underscored its effectiveness in enhancing business operations and success.

In conclusion, the study affirmed that product differentiation, personnel differentiation, market focus innovation, and factor innovation are all vital strategies for SME growth. Implementing these strategies effectively can lead to improved performance, competitive advantages, and long-term success for businesses in Makueni County.

5.4 Recommendations of the Study

Based on the findings from the hypothesis testing, the following recommendations are provided to enhance the growth of SMEs in Makueni County, Kenya:

The positive significant relationship between product differentiation strategy and SME growth suggested that SMEs should focus on distinguishing their products or services from competitors. To leverage this strategy effectively, SMEs should conduct market research to gain insights into customer needs and preferences. Tailoring products to meet these needs can help build a stronger market presence and drive growth. Finally, develop a compelling brand identity that reflects the uniqueness of the products. Effective branding can differentiate SMEs in the marketplace and attract a loyal customer base.

The study indicated that personnel differentiation strategy positively influenced SME growth. In light of this, SME should prioritize their human resources. Investing in employee training and development is crucial for enhancing skills and competencies, which can lead to improved performance and growth. Creating a positive work environment that supports and motivates employees is also important, as it can boost morale and productivity. Moreover, strategic recruitment of talented and motivated individuals who align with the business's goals can drive innovation and operational efficiency.

Given the significant effect of market focus innovation strategy on growth, SMEs should adopt strategies that emphasize innovation within their target markets. Identifying and focusing on niche markets where the business can offer unique solutions or address unmet needs can provide a competitive advantage. Utilizing emerging technologies and digital tools, such as digital marketing and e-commerce platforms, can expand market reach and attract new customers. Staying ahead of market trends and adapting business strategies accordingly can also help SMEs maintain relevance and seize new opportunities.

Lastly, the positive impact of factor innovation strategy on growth underscores the importance of improving core operational factors. SMEs should invest in technologies and processes that enhance operational efficiency, reduce costs, and improve productivity. Upgrading technological infrastructure to support business operations and integrating advanced tools can boost competitiveness and facilitate growth. Efficient resource management practices, including the optimal allocation and utilization of human, financial, and physical resources, are essential for driving performance and supporting long-term growth.

5.5 Areas for Further Research

Expanding future studies beyond the SME sector could provide valuable insights into the broader applicability and effectiveness of differentiation strategies across various business contexts. While SMEs represent a significant segment of the economy, exploring how differentiation strategies impact growth and competitiveness in larger firms could offer a more comprehensive understanding of their implications. Research could investigate how differentiation strategies are adopted, implemented, and integrated into business models across different industries, company sizes, and geographic regions. By

examining the experiences of both SMEs and larger enterprises, future studies could identify common patterns, unique challenges, and best practices in leveraging differentiation strategies to drive growth and innovation. Moreover, exploring how differentiation strategies interact with other organizational factors, such as leadership, organizational culture, and market dynamics, could further enrich our understanding of their impact on business performance. By extending beyond the SME sector, future research could provide valuable insights and guidance for businesses of all sizes seeking to enhance their competitiveness and achieve sustainable growth in dynamic market environments.

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APPENDICES**Appendix I: Introduction Letter**

Valentine Osimbo

RE: Questionnaire

I am a student at St. Paul's University pursuing Master's Degree in Business Administration. I am carrying out a study on differentiation and growth of smes in kenya.

I kindly request you to complete the attached questionnaire so as to enable me carry out the study. Please note that all the information given shall be treated purely confidential and shall be used for academic purposes only. Thank you for your cooperation and taking your time to complete the questionnaire.

Yours faithfully,

Valentine Osimbo

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Appendix II: Questionnaire

Part A: General Information

1. Gender of the respondents?
 - Male
 - Female

2. How long have you been working in the organization?
 - 1-4 years
 - 5-8 years
 - 9-12 years
 - Above 13 years

3. What is your highest level of education?
 - Certificate
 - Diploma
 - Degree
 - Masters

Part B: Product differentiation Strategy

4. What is your level of agreement on the following statements about the influence of cost leadership strategy on growth of SMEs in Kenya. Using the scale 1- strongly disagree, 2-disagree, 3-moderate, 4-agree, 5- strongly agree.

Statements	1	2	3	4	5
The organization's product offerings are distinct from competitors due to unique features that cater to specific customer needs.					
The product differentiation strategy has led to the development of innovative features that set the organization's products apart in the market.					
The product differentiation strategy has consistently resulted in higher quality products compared to competitors.					
Investments in product differentiation have significantly enhanced the overall quality of the organization's offerings.					
The organization's commitment to product differentiation has strengthened its brand reputation as a leader in quality and innovation.					
The unique aspects of the organization's products have positively					

impacted its brand reputation, leading to increased customer trust and loyalty.					
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Part C: Personnel Differentiation Strategy

5. What is your level of agreement on the following statements about the relationship between competitive strategies and growth of SMEs in Kenya? Using the scale 1-strongly disagree, 2-disagree, 3-moderate, 4-agree, 5- strongly agree.

Statements	1	2	3	4	5
The organization has adopted the personnel differentiation strategy					
Personnel Differentiation strategy has helped in meeting specific customer needs					
Differentiation strategy has helped the organization's products to stand out in the market					
Personnel Differentiation strategy has created a brand loyalty among customers					
Personal Differentiation strategy has helped in creating quality products					
The company employs company branding to differentiate itself and products to customers					
Personnel Differentiation strategy has ensured that the organization's products cannot be easily substituted					

Part D: Market Focus Innovation Strategy

6. What is your level of agreement on the following statements about the relationship between competitive strategies and growth of SMEs in Kenya? Using the scale 1-strongly disagree, 2-disagree, 3-moderate, 4-agree, 5- strongly agree.

Statement	1	2	3	4	5
The organization has adopted the Market Focus Innovation Strategy.					
Market Focus Innovation Strategy helps in lowering production costs because the organization focuses on a narrow market.					
Market Focus Innovation Strategy has enabled the organization to provide higher quality products.					

Market Focus Innovation Strategy has enhanced the relationship between the organization and its customers because brands are created to suit customer needs.					
Market Focus Innovation Strategy makes consumers feel that a brand is created specifically for them, which builds loyalty over time.					
Market Focus Innovation Strategy has enabled the organization to develop expertise about the goods and services that they offer.					
Market Focus Innovation Strategy has enabled the organization to provide the best products at a better cost.					

Part E: Factor Innovation Strategies

7. What is your level of agreement on the following statements about growth of SMEs. Using the scale 1-strongly disagree, 2-disagree, 3-moderate, 4-agree, 5-strongly agree.

Statements	1	2	3	4	5
The organization has adopted factor innovation to enhance product innovation strategy					
Factor innovation strategy has enhanced creativity in the organization					
Factor innovation strategy ensures that the organization produces products that are attractive in the market					
Factor innovation strategy has led to the adoption of cost-effective production methods, reducing overall production costs					
Technological advancements incorporated through factor innovation have significantly improved the organization's production processes and product offerings					
Factor innovation strategy has optimized the utilization of resources within the organization, contributing to more efficient production processes					

Part F: Growth of SMEs

8. What is your level of agreement on the following statements about growth of SMEs? Using the scale 1-strongly disagree, 2-disagree, 3-moderate, 4-agree, 5-strongly agree.

Statements	1	2	3	4	5
The organization has adopted factor innovation to enhance its market share expansion.					
Factor innovation strategy has contributed to significant revenue growth for the organization.					
Factor innovation strategy has led to an increase in employee growth within the organization.					
Factor innovation strategy ensures that the organization targets profitable market segments, aiding market share expansion.					
Factor innovation strategy helps in generating revenue growth by addressing unmet customer needs.					
Factor innovation strategy has facilitated employee growth by meeting new customer needs and expanding market reach.					

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Appendix III: CONSENT FORM

Title of study: **INFLUENCE OF DIFFERENTIATION STRATEGIES ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN MAKUENI COUNTY, KENYA**

Dear respondent,

I am a Master of Business Administration student in the faculty of Business and Leadership Studies of St. Paul's University, undertaking a study on "*INFLUENCE OF DIFFERENTIATION STRATEGIES ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN MAKUENI COUNTY, KENYA.*" In identifying contributing factors, this study will be important in advising the actions of policy makers in the public sector. I hereby ask you to participate in a research study which involves answering questions on a questionnaire. No names should be written on the questionnaire, and the information you will give will be anonymous and confidential. You are allowed to skip questions that you find intrusive, or withdraw anytime it gets uncomfortable. You will later have access to the study's findings and deductions from public available journals. I highly implore you to give information that is complete, correct and truthful to the best of your ability. Data given will purely be used for this study in compliance with NACOSTI approvals.

Respondent:

I consent participate in the study.

Signature of the participant Date

Commissioner:

I certify that the respondent or participant has read and understood about the study. He / she has voluntarily agreed to participate in the study.

Signature of the Commissioner..... Date

APPENDIX IV:NACOSTI RESEARCH PERMIT

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NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

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RESEARCH LICENSE



Date of Issue: 24/April/2024

This is to Certify that Ms. VALENTINE OSIMBO OKWARO of St. Paul's University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Makueni on the topic: **INFLUENCE OF DIFFERENTIATION STRATEGIES ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN MAKUENI COUNTY for the period ending : 24/April/2025.**

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APPENDIX VI: PLAGIARISM REPORT

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

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