

# Influence of Strategic Management Practices on Financial Performance of Small and Medium Manufacturing Firms in Nairobi County, Kenya

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**Abstract-** The business environment has become more competitive, resulting in increased consumer alternatives, reduced pricing, increased competition, and lower profit margins, all of which have increased the importance of strong strategic marketing practices. The main objective of the study was to determine the effect of strategic management practices on financial performance of SMEs in Nairobi County. The specific objectives of this study were to determine the influence of environmental scanning, market positioning practices, cost leadership practices and differentiation practices on financial performance of manufacturing SMEs in Nairobi County. The study was guided by three main theories including McKinsey 7s Model, Resource-Based Theory and Game Theory. This study used a descriptive research design which aims at revealing the actual phenomenon in question exactly the way it is without any alterations. The population for this study were 58 managers and owners from 58 manufacturing SMEs in Nairobi County. This study employed a census sampling approach in selecting the sample population for the study and target respondents were the managers, owners or their equivalents in the SMEs. Data was collected using questionnaires and analyzed using descriptive and inferential analysis. The findings of the descriptive statistics indicate that environmental scanning practices play a significant role in influencing the financial performance of manufacturing SMEs in Nairobi County. The analysis of market positioning practices suggested a mixed level of utilization among manufacturing SMEs in Nairobi County. The model summary indicated that the combination of Differentiation Practices, Market Positioning Practices, Environmental Scanning, and Cost Leadership Practices explains approximately 29.9% of the variance in financial performance ( $R^2 = 0.299$ ). The adjusted  $R^2$ , which accounts for the number of predictors in the model, stands at 0.241, suggesting a relatively moderate fit. Additionally, market positioning, cost leadership, and differentiation practices also demonstrated positive and significant coefficients ( $\beta = 0.182, p = 0.015$ ;  $\beta = 0.325, p = 0.043$ ;  $\beta = 0.329, p = 0.012$ , respectively), indicating their importance in enhancing SME financial performance. The study revealed that cost leadership practices significantly influence the financial performance of manufacturing SMEs in Nairobi County. The study concluded that environmental scanning plays a significant role in influencing the financial performance of manufacturing Small and Medium Enterprises (SMEs) in Nairobi County. Contrary to expectations, the study found that there is no statistically significant relationship between market positioning practices and financial performance among SMEs in Nairobi County. The study recommended that manufacturing SMEs in Nairobi County prioritize and enhance their environmental scanning practices to improve their financial performance.

**Index Terms-** Strategic Management Practices, Financial Performance, Small and Medium Manufacturing Firms.

## I. INTRODUCTION

### 1. Background of the Study

Globally, small and medium enterprises (SMEs) have been recognized by countries worldwide as drivers of wealth creation, job creation, and as effective tools for poverty alleviation (Mount, 2019). The success of SMEs in a country

can therefore be considered critical to the economic wellbeing of the majority of the households. It is therefore paramount that the management of SMEs undertakes measures to enhance their survival and growth in the market environment by developing competitive advantage over the other large firms. Gaining a competitive advantage necessitates strategic strategy and considerable study. The relative position of a

corporation within its industry determines whether its profitability is above or below the industry average. The underlying premise of long-term above-average profitability is sustained competitive advantage (Chen, & Ni, 2020).

Strategic management has evolved to a popular concept in the business world, as it has become a primary focus point for making decisions and enabling businesses to reach long-term plans and goals in the United States. These decisions and activities lead to the development and implementation of plans to help the company achieve its goals (Pearce & Robinson, 2018). The corporate environment has transformed to a more demanding world, which most experts refer to as the VUCA world, which stands for Volatile, Uncertain, Competitive, and Ambiguous, in which organizations must constantly devise new strategies as old ones become obsolete (Lewis, 2018). SMEs' contribution to manufacturing value added has also grown, however it remains modest, accounting for 14.2 percent of manufacturing businesses, despite the fact that two-thirds (67%) of manufacturing firms are SMEs (KRA, 2021). Pay as You Earn (PAYE) and income tax payments have been growing over the years, according to tax performance data. Value Added Tax (VAT) payments, on the other hand, have decreased since 2014/15, owing to the adoption of Turnover Tax (TOT), which has been continuously growing since its inception. According to these figures, manufacturing SMEs have yet to fulfill their full potential as drivers of economic growth in the country. The sector's poor success might be due to weak strategic management techniques. To have a greater economic effect, SMEs must create a durable competitive advantage through the implementation of good market growth plans that allow them to beat the competition, and the present study will throw additional light on this.

The Session Paper No. 2 of 2005, Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction, is Kenya's official policy framework for SMEs (hence "Sessional Paper No. 2 of 2005"). The purpose of this policy paper was to provide the groundwork for the SME Act, which would institutionalize SME policy in Kenya. The new SME Act would govern the legal and regulatory environment, markets and marketing, business linkages, taxation, skills and technology, and financial services, among other things. This Policy framework was used to create the Micro and Small Enterprises Bill 2011 ("MSME Bill 2011"), which is now before the Kenyan Parliament.

A SME is defined by the World Bank as one that fits one of the following criteria, as outlined in Session Paper No. 2 of 2005: (1) A fully registered business with an annual revenue of between Kenya Shillings 8 and 100 million, (3) an asset base of at least Kenya Shillings 4 million, and (5) 5 to 150 employees. To define SMEs in general, the MSME Bill 2011 used two criteria: (a) the number of people/employees and (b)

the company's annual turnover. For manufacturing companies, the phrase encompasses both equipment and machinery purchases as well as registered capital (GoK, 2021).

Manufacturing involves the production of goods i.e. the processing of raw materials into more valuable products. This not only creates job opportunities both from provision of raw materials to labour required for production but also boosts the economy (KAM, 2018). In UK, these firms make up around 99.9% of all businesses hence being the source of employment to millions of people. In Mozambique, SMEs compose 98.6% of the total firms (Osano and Languitone, 2016). According to research done by Hezron and Hilario in 2016, 5% of SMEs in Mozambique are financed banking institutions with the remaining 95% use other financing avenues such as family and friends for their investment and working capital because of the difficulties in being sustainable (Hezron & Hilario 2016).

Globally, countries have achieved significant progress toward their national development goals recognize the importance of intellectual property to SMEs and, as a result, have clear legislation governing SMEs and intellectual property rights. Manufacturing SMEs improve the competitiveness of the economy by exporting their products and generating employment opportunities for semi-skilled people. Most countries throughout the world have industrialized as a result of placing a high priority on the manufacturing sector (KAM, 2021). Incorporating small and medium-sized enterprises (SMEs) into policy and regulatory frameworks is a commendable effort on Kenya's part.

Although this is the case, if Kenya is to achieve its development objectives as outlined in Vision 2030, a significant amount of work will need be done to not only provide an appropriate framework for the development of SMEs, but also to assist them to gain an advantage in an increasingly competitive market dominated by large multinational corporations. In spite of the manufacturing industry's overall significance to the economy, small and medium-sized enterprises (SMEs) in the sector have substantial difficulty in maintaining profitability, with the vast majority of SMEs reporting persistent losses.

## 2. Statement of the Problem

The business climate has become more competitive, resulting in more consumer alternatives, reduced pricing, increased competition, and lower profit margins, all of which have increased the importance of strong strategic management (Mbuvi, 2019). In spite of the strategic importance given to the SME sector by Kenya's vision 2030, SMEs continue to perform dismally in the market (GoK, 2021). Many SMEs in the country fail during the early years of inception and one of the reasons attributed for the failure is their inability to beat the competition (Orwa, 2014). SMEs specifically in Nairobi

County are faced with high competition from the huge number of firms in the County (Mwilu & Njuguna, 2020), high operational costs that require skills to manage and inadequate skills by the entrepreneurs. Whereas on average in Kenya most of the SMEs close within three years of starting operations, the rate of failure is much higher in Nairobi County (Maiyo & Kungu, 2022; Mohammed & Rugami, 2019). The challenge for the SMEs is to find a way of achieving a sustainable competitive edge over the other competing firms in the market. Though theoretically for SMEs to survive and achieve growth in an environment where competition intense, they need to develop appropriate strategies, the empirical studies conducted have had mixed and contradictory findings. Most strategic plans among SMEs are doomed from the start due to inadequate planning, insufficient capitalization, a lack of leadership, a lack of commitment, as well as cultural and ideological incompatibilities between the two parties (Spranger, 2021).

To adapt, survive, and grow, manufacturing SMEs in Kenya need to respond effectively to internal institutional pressures as well as to the demands imposed by external environments. However, the available literature is not sufficient enough in explaining the strategies that may be adopted by these companies to help them in improving their financial performance. Furthermore, Chew (2019) claims that there are few theoretical/conceptual frameworks to drive strategic research and that the majority of the extant literature is normative, with the problems discussed being subjective in nature. The studies conducted have also mainly concentrated on the type of strategies adopted without considering their impact on financial performance. Therefore, this study sought to answer these research gaps and yearned to address the research question; what is the effect of strategic management practices on financial performance of manufacturing SMEs in Nairobi County?

### 3. Purpose of the Study

The purpose of this study was to determine the impact of strategic management practices on financial performance of small and medium manufacturing firms in Nairobi County.

## II. LITERATURE REVIEW

### 1. Theoretical Framework

#### The McKinsey 7S Model

This theory was developed in the 1980s by Robert H. Waterman, Jr. and Tom Peters of the McKinsey and Company. The model is appraised of its ability to evaluate effectiveness of organization based on the seven elements which all begin with the letter 'S'. Due to its gained popularity, many organizations have found this model effective in evaluating their performance over a certain period of time. The 7S are divided into two, the first three elements (Structure, Strategy, and System) are considered as hard components while the

other four (Skill, Shared Values, Style, and Staff) are soft components. Many scholars have shown interest on the effectiveness of this model including Alam (2017) who went further and analyzed both type of elements by describing the hard elements as those elements that can easily be influenced by management as they are easy to both define and identify, e.g., strategy statements, organization charts, IT systems, etc. While soft elements are those elements that are not easily identifiable and can easily be influenced by culture even though they are hard to describe.

The application of this model has gained familiarity in most organizations around the globe as one which aids organizations review its strategies to improve general performance when making broad decisions such as those of a merger or acquisitions. It is a highly recommended framework when implementing a strategic plan of action. The inclusion of this theory in this study owes to the fact that it is a vital strategic management tool that pulls together the 7 components of an organization and show their relationship on how it can help a small or medium enterprise achieve the highest organizational performance. The theory helps in understanding which strategies are to be adopted in the SMEs in order to ensure maximum gains in the performance. As a result, the theory served as the study's major anchor, outlining how all strategies management variables.

#### The Resource-Based Perspective (RBV)

In 1984, Birger Wernerfelt proposed the resource-based view (RBV), which considers resources to be crucial to a company's success. Supporters of this position argue that rather than pursuing competitive advantage in the marketplace, businesses should hunt for it within their own walls. RBV proponents argue that repurposing existing resources to capture external opportunities is considerably more practical than learning new skills for each opportunity (Wernerfelt, 1984). The RBV model emphasizes the importance of resources in supporting companies in improving their performance. The two types of resources are tangible and intangible resources, with tangible assets include land, buildings, machinery, equipment, and capital.

The implications of this theory are that the resources held by SMEs had a substantial influence on the operations of the businesses. Not only will the resources determine which techniques are used, but also how far they are deployed.

As a result, manufacturing SMEs with a varied variety of resources that cannot be reproduced are regarded to have a higher impact on strategic management. Smaller manufacturing SMEs, on the other hand, had fewer options from which to pick, resulting in less financial effect. The idea is crucial to the study because it explains the role of resources in determining the techniques employed

### Game Theory

In 1942, John von Neumann proposed game theory, and in 1950, Oskar Morgenstern extended it. This theory, according to Kotler (1998), is a mathematical tool for corporate decision-makers.

Game theory's strength is the method it uses to organize and evaluate strategic choice scenarios. By assessing dynamic and sequential judgments, it enhances tactical decision-making. By thoroughly understanding the dynamics with others, you may recognize win-win techniques that benefit you in the long term, as well as signaling approaches that avoid lose-lose scenarios. Furthermore, if you understand the game, you may change the rules or participants to your benefit. Scope is defined by Başar and Zaccour (2018) as the game's boundaries. The most important addition of game theory to the field is that it highlights the need of planning ahead, evaluating possibilities, and anticipating the behaviors of other players in your "game." In strategy, the reward matrix, large form games, and the core of a game are all essential concepts. A company's industry position, abilities, activities, or other elements cannot be the sole determinants of a successful strategy. Manufacturing SMEs must thus not just learn but also know how to combat giant firms' strategies. Businesses must be able to design even better tactics in order to get a competitive advantage. As a result, the theory will be used to explain competitor-based strategic management and to compare what other competitors have done.

### 2. Empirical Review

Vudzijenja (2017) develops a list of academics who want to study more about the influence of environmental scanning on Harare's small and medium retail companies. A quantitative study was used to collect data, with self-administered questionnaires serving as the data collecting tool. A total of 150 retail SMEs in Harare were identified using a simple random selection approach. The participants in the study were retail SMEs owners and managers who were present at their places of business at the time of the survey. The data was processed with SPSS, and correlation and regression analysis were conducted to assess the variables' relationships. According to the study, environmental scanning features have a significant favorable relationship with the success of retail SMEs in Harare.

Gachimu and Njuguna (2017) investigated the impact of strategic positioning on Kenyan commercial banks' financial performance. The data was subjected to a correlation analysis to determine the strength of the relationship between the dependent and independent variables. To further understand the nature of the link between the dependent and independent variables, multiple regression analysis was used. Market segmentation, product focus strategy, technical innovation, and location strategies are all used by commercial banks in

Kenya to improve their competitiveness, according to the report.

Kiviti (2018) looked at the impact of market positioning tactics on KCB Bank Group Ltd's performance. This research used the case study technique, which has gained prominence in recent years as a potent tool for conducting in-depth examinations of patterns and unusual circumstances. Brand positioning strategy appears to have a beneficial impact on performance, according to the data. Despite its scientific underpinning, brand positioning strategy is an effective marketing tactic when dealing with a powerful authority unit. According to the findings of the study, banks must employ positioning strategies to achieve quick firm expansion while also becoming more lucrative in comparison to competitors and increasing sales of new goods.

Mbuvi (2019) gained access to positioning strategies for attracting and maintaining corporate clients in order to improve commercial bank performance in Kenya. The descriptive research approach was chosen for this study because it has the benefit of displaying the link between two or more variables, in this example, attracting and keeping clients and positioning strategies, which is very noteworthy. According to the findings of the survey, banks' focus strategies, differentiation strategies, and cost leadership strategies are all critical in their efforts to retain clients and grow their businesses. Because they provide these services, businesses will be able to keep their customers. According to the conclusions of the survey, banks will continue to innovate and expand their product offerings in order to keep their present clients while attracting new ones from competitors.

Waiyaki (2014) discovered that varied cost structures in different market sectors allow a company to employ a cost-focused approach. Because of the variances in market segments, customers' needs and desires are also distinct, and enterprises should take advantage of these differences to build products and services that will meet their needs and wants. In an industry where economies of scale are vital, a cost-focused approach may be difficult to assess.

Mokua, Kanyagia, and M'Nchebere (2017) investigated the organizational performance of Kenya Airways in the Kenyan airline industry. Out of a total population of 1230 employees and customers, 215 people responded to the survey. A technique known as content analysis was used to assess the data. The data supported the idea that pricing approaches play a role in explaining performance discrepancies. The confidence range for this estimate is 95%. Cost strategies, performance, service quality, innovation, and a variety of other factors and advantages are all influenced by the pricing approaches adopted. Furthermore, the outcomes of the study revealed a link between pricing approaches and perceived service quality perceptions. It was established that the

association between pricing strategies and innovation is average.

According to Pearce and Robinson (2015), differentiation strategies are built on giving customers something new or unique that sets the firm apart from its competitors' strategic positioning, product, or service. Because the product is of greater quality, is technically superior in some manner, comes with superior service, or has a unique appeal in some way, superior value is generated. In effect, differentiation increases competitive advantage by making customers more loyal to a company's product/service and less price sensitive.

Parnell (2016) emphasizes the importance of difference in a company's image, which makes the purchase process more sensitive for customers. Allen and Helms expect that firms will produce individualized products as a result of this. All of this backs up Thompson and Strickland's (2014) assertion that enterprises may differentiate themselves in a variety of methods and dimensions. The fierce competitiveness in today's market is the driving reason for most organizations' efforts to focus on differentiation.

### III. RESEARCH METHODOLOGY

This study adopted a positivism philosophy, an investigation grounded in empirical data and scientific techniques like statistics and experimentations. According to philosophical interpretations, positivism holds that only knowledge that is factual and has been obtained by sense perception, observation, or measurement can be trusted (Cresswell, 2017). This philosophy was adopted because it uses current theory and inductive hypotheses, as well as deterministic scientific principles. This study used a descriptive research design which aims at revealing the actual phenomenon in question exactly the way it is without any alterations. It involves the assessment and measurement of a set of variables, assessment of the relationship between the variables and where possible make valid conclusions hence the most appropriate for the study (Cooper & Schneider, 2014).

The target population for this study was the 58 manufacturing SMEs in Nairobi County with the respondents being the owners of the firm. Industrial area region is targeted since it contains more than 75% of manufacturing firms in Nairobi County hence its appropriateness as the study site. As such, all the 58 manufacturing SMEs registered by the Kenya Manufacturing Association (KAM) based at Industrial Area were targeted as per appendix I. The manufacturing SMEs were chosen since they are most faced with competition from imports, need to manage costs and therefore have the best prices and level of automation required is higher to ensure efficiency in their processes. This study employed a census sampling approach in selecting the sample population for the study. This sampling approach enabled covering of all the 58

manufacturing SMEs operating at Industrial Area Region, Nairobi. The target respondents for the study were the 58 HR managers, owners or their equivalents in the SMEs. These respondents were chosen as they are directly involved in the operations of the SMEs hence most conversant with the financial position of the firms and the effect that strategic management has. Questionnaires were the key technique of data collecting in this study. The questionnaire included closed-ended questions to help in the standardization and measurement of study results. The closed-ended questions were composed using the Likert scale, with at least five items for each component of the variable. Alternatively, the open-ended questions on the questionnaire helped in the gathering of detailed data that was descriptive and exploratory in nature for all facets of the variable(s) of interest. This was useful for data interpretation and explanation.

After the proposed recommendations for the research supervisor have been considered, the data collection method begun. The next step was to secure the appropriate permits and approvals from the management of small and medium-sized businesses. Following the sampling procedure, the researcher informed the study's target respondents about the study's aims and objectives. This was done to reduce suspicion and enhance cooperation. To ensure that respondents have adequate time to finish the questions, they were administered by the respondents themselves using a drop and pick method. The questionnaires were picked for further review by the research team after a two-week period (14 days). In order to get a satisfactory response rate, phone calls and emails were used for follow-up.

The researcher conferred with the university supervisor and other experts on the flow language and structure of the research questionnaire to determine the validity of the research instruments. The content validity of the research was evaluated, which relates to how well a measuring instrument covers the subject under investigation. The degree to which research equipment generates consistent findings after repeated trials is known as its dependability (Mugenda, 2008). If an instrument can accurately and consistently measure a variable over time while producing the same results under the same conditions, it is considered trustworthy. The Cronbach alpha coefficient, which is used to investigate the internal consistency of items or questions, was used to assess the instrument's reliability in this study. Cronbach's alpha is concerned with things that may elicit more than two responses and are measurable, therefore it can be used with both binary and large-scale data. The dependability coefficient (alpha) can vary from 0 to 1, with 0 indicating an instrument with all flaws and 1 indicating an instrument with no errors.

Before any analysis can occur, the data was cleansed to ensure that there are no conflicts between the data sets. The data was then be coded and entered into the computer. After that,

descriptive statistics like frequencies, percentages, means, and inferential statistics were used to categorize and summarize the data. The link between the variables was discovered using inferential analysis techniques such as regression and correlation analysis. Data was coded and analysed using the Statistical Package for Social Science (SPSS) Version 20.0 application to achieve this goal. Tables and figures were utilized to display the studied data for ease of comprehension. As part of this research effort, a variety of ethical issues were addressed. Voluntary participation, informed consent, confidentiality, and communication of outcomes are all part of this. The researcher ensured that no respondent is forced to participate in the study by deceit or the promise of benefits, and that no respondent is penalized for participation. Aside from that, the study adhered to the institutionally established ethical guidelines for academic research. Furthermore, all study participants were provided the right to remain anonymous by not exposing their individual or corporate names or connections. The study was only carried out if the university, NACOSTI, and other competent managements have agreed and approved it, among other things.

## IV. RESEARCH FINDINGS AND DISCUSSIONS

### 1. Descriptive Statistics Environmental Scanning and SME Performance

Table 1: Descriptive Statistics for Environmental Scanning and SME Performance

Construct			Mean	Std. Deviation	Skewness	Std. Error	Kurtosis	Std. Error
SWOT analysis	1.0	5.0	2.8846	1.13161	0.319	0.330	-0.774	0.650
PESTLE analysis	1.00	5.00	2.9434	0.96904	0.248	0.327	0.114	0.644
Scenario planning	1.00	5.00	2.6604	1.17577	0.557	0.327	-0.549	0.644
Porter's Five Forces	1.00	5.00	3.1698	1.12208	-0.178	0.327	-0.347	0.644
Market Survey	1.00	5.00	2.8269	1.24808	0.026	0.330	-0.927	0.650

It is observed that SWOT analysis has a mean of 2.8846 with a standard deviation of 1.132, indicating a moderate level of utilization among the surveyed SMEs. This suggests that while SMEs are employing SWOT analysis as a strategic tool, there might be variability in its effectiveness across different business. The skewness and kurtosis values suggest a relatively normal distribution of responses. Similarly, PESTLE analysis shows a slightly higher mean score of 2.943 with a lower standard deviation, indicating a more consistent application across the sampled SMEs compared to SWOT analysis. This skewness and kurtosis values also suggests a near-normal distribution, implying that SMEs tend to incorporate PESTLE analysis in their strategic decision-making processes.

On the other hand, scenario planning exhibits a lower mean of 2.660 with a relatively higher standard deviation, suggesting more variability in its application among the SMEs. The skewness value indicates a slight negative skew, possibly suggesting that fewer SMEs are extensively employing scenario planning compared to other practices.

Porter's Five Forces, with a mean score of 3.170, appears to be relatively more utilized among the surveyed SMEs, as indicated by its higher mean compared to other practices. The skewness value indicates a slightly negative skew, suggesting a distribution slightly skewed towards higher utilization.

Market surveys, with a mean score of 2.827, demonstrates a moderate level of utilization among SMEs, comparable to SWOT analysis. However, the higher standard deviation suggests more variability in its implementation across the surveyed SMEs. The findings are in line with Li and Liu (2021) noted that strategic management tools enabled organizations to identify and assess internal strengths and weaknesses, as well as external opportunities and threats, thereby enhancing their strategic decision-making processes.

### Market Positioning Practices and SME Performance

Analyzing table 4.2, it is observed that offering a large variety of products has the highest mean score of 3.528 among all constructs, indicating a relatively high level of utilization of this market positioning strategy among the surveyed SMEs. The skewness and kurtosis values suggest a nearnormal distribution of responses, implying a commonality in the adoption of this practice.

Improvement of product quality, with a mean score of 2.925, exhibits a moderate level of utilization among SMEs, as indicated by its mean. The skewness and kurtosis values suggest a slightly negative skewed distribution, possibly indicating some variability in the effectiveness of this practices across different enterprises.

**Table 2: Descriptive Statistics for Market Positioning Practices and SME Performance**

Construct	Min	Max	Mean	Std. Deviation	Skewness	Std. Error	Kurtosis	Std. Error
Improvement of the quality of products being offered	1.00	5.00	2.9245	1.22237	-0.048	0.327	-0.957	0.644
Offering a large variety with the product of the firm	1.00	5.00	3.5283	1.18652	-0.644	0.327	-0.142	0.644
Focusing on how the looks and aesthetic of a product suits the customers' life and needs.	1.00	5.00	2.8679	1.31614	0.042	0.327	-1.195	0.644
Consumers are able to easily	1.00	5.00	2.9623	1.27041	0.015	0.327	-0.998	0.644

Focusing on the aesthetic appeal of products and their alignment with customer needs, with a mean score of 2.868, also demonstrates a moderate level of utilization. The skewness and kurtosis values suggest a distribution slightly negative skewed, indicating potential variations in the application of this strategy among SMEs. Brand recognition and credibility, with mean scores of 2.962 and 2.774 respectively, indicate moderate levels of implementation among SMEs. The skewness and kurtosis values suggest relatively normal distribution, implying consistency in the adoption of these practices across surveyed enterprises.

Lastly, the alignment of marketing positioning with organizational values shows a mean score of 3.057, indicating a relatively high level of implementation among SMEs. The skewness and kurtosis values suggest a slightly positively skewed distribution, indicating a predominant adoption of this strategy among surveyed enterprises. These findings align with a study by Johnson et al., (2017) who suggested that certain market positioning strategies significantly influenced

SME financial performance, offering insights into potential drivers of success in this domain.

### Cost Leadership Strategy and SME Performance

**Table 3: Descriptive Statistics for Cost Leadership Strategy and SME Performance**

Construct	Min	Max	Mean	Std. Deviations	Skewness	Std. Error	Kurtosis	Std. Error
Value based pricing	1.00	5.00	3.0566	0.92850	0.184	0.327	-0.554	0.644
Competition pricing	1.00	5.00	2.8113	1.03880	0.073	0.327	-0.270	0.644
Skimming pricing	1.00	5.00	2.8679	1.07485	0.369	0.327	-0.742	0.644
Penetration pricing	1.00	5.00	2.9245	0.97762	0.027	0.327	-0.046	0.644
Cost leadership pricing	1.00	5.00	2.8113	1.09292	-0.069	0.327	-0.832	0.644

Analyzing table 4.3, it is evident that the mean scores for Value-based pricing, skimming pricing, Penetration pricing, and Cost leadership pricing fall within a similar range, indicating moderate utilization of these strategies among the surveyed SMEs. The standard deviations vary, with valuebased pricing exhibiting the lowest deviation, suggesting more consistent application compared to the other pricing strategies. Value-based pricing stands out with a mean score of 3.057 and a relatively lower standard deviation, suggesting a more standardized application across the sampled SMEs. This indicates that a considerable proportion of SMEs in Nairobi County may be adopting a value-based approach to pricing, aligning their prices with the perceived value by customers.

Competition pricing and skimming pricing exhibit slightly lower mean scores compared to valuebased pricing, indicating a comparatively lesser utilization among the surveyed SMEs.

1.00 5.00 2.6981 0.97241 0.000 0.327 -0.510  
0.644

However, the standard deviations are relatively higher, indicating more variability in the implementation of these strategies across different businesses. Penetration pricing and Cost leadership pricing both show mean scores similar to Competition pricing, suggesting moderate adoption rates. However, the skewness and kurtosis values for cost leadership pricing indicates a slightly negative skew, potentially suggesting a distribution skewed towards lower utilization of this strategy among the surveyed SMEs.

1.00 5.00 2.9057 1.09657 0.102 0.327 -0.641  
0.644

These findings underscore the importance of further research and strategic planning to optimize cost leadership strategies and enhance the financial performance of SMEs in the manufacturing sector. Similarly, Bill and White (2016) highlighted that effective implementation of cost leadership strategies could lead to improved financial performance among SMEs.

1.00 5.00 3.3585 0.92184 -0.025 0.327 -0.149  
0.644

Average 1.00 5.00 3.3396 0.93938 -0.165 0.327  
-0.387 0.644

**Differentiation Practices and SME Performance**

Table 4: Descriptive Statistics for Differentiation Practices and SME Performance

Construct	Min	Max	Mean	Std. Deviation	Skewness Error	Kurtosis Error
The SME focuses on the primary benefit of the product or services for their target market.	1.00	5.00	2.8679	0.92065	0.117	0.327
The product or services provided by the SMEs are unique in comparison to the competitors	1.00	5.00	2.8679	0.92065	0.117	-0.093
The SME has excellent customer service that its unique to the competitors	1.00	5.00	2.8679	0.92065	0.117	0.327
The firm has adopted digital process unique from the competitors to ensure timely product availability and customer service.	1.00	5.00	2.8679	0.92065	0.117	0.327

Analyzing table 4.4, it is observed that SMEs in Nairobi County tend to focus on the primary benefits of their products or services, as indicated by a mean score of 2.868. the relatively low standard deviation suggests consistency in this practice among the surveyed SMEs. The skewness and kurtosis values indicate a nearly normal distribution of responses, reflecting a balanced utilization of this differentiation strategy. Similarly, the mean score for offering unique products or services compared to competitors is 2.698, indicating a moderate level of differentiation. The standard deviation suggests some variability in the adoption of this practice among SMEs. The skewness and kurtosis values suggest a slightly negative skewed distribution, implying that while many SMEs are striving for uniqueness, there is room for improvement in this aspect.

Regarding customer service excellence, SMEs in Nairobi County exhibit a mean of 2.906, indicating a moderate emphasis on providing excellent customer service unique to competitors. The standard deviation suggests some variability in this practice among surveyed SMEs. The skewness and kurtosis values indicate a slightly negatively skewed distribution, suggesting that while many SMEs prioritize customer service, there is still room for enhancement in distinguishing their services from competitors. In contrast, the adoption of digital processes unique from competitors demonstrates a higher mean score of 3.359, suggesting a relatively stronger emphasis on innovation in this aspect among SMEs. The standard deviation indicates less variability in this practice, reflecting a more consistent adoption across surveyed SMEs. The skewness and kurtosis values suggest a relatively normal distribution, indicating a balanced utilization



of digital processes for differentiation among SMEs in Nairobi County.

**Performance of Manufacturing SMEs**

Table 5: Descriptive Statistics for Performance of Manufacturing SMEs

Construct		Mean	Std. Deviation	Skewness	Std. Error	Kurtosis	Std. Error
		3.169	1.03284	-0.028	0.327	-0.670	0.644
Accumulated Annual investment/cost		8					
Approximate annual costs	1.00	5.00	1.26123	0.289	0.327	-0.796	0.644
What is the growth rate of your company performance?	1.00	5.00	1.21702	-0.306	0.327	0.958	0.644
Return on capital employed	1.00	5.00	1.22237	0.215	0.327	-0.887	0.644
Return on Assets	1.00	5.00	1.13276	0.708	0.333	0.181	0.656
Return on Investment	1.00	5.00	1.12918	0.465	0.327	-0.401	0.644
Operating profit margin	1.00	5.00	1.17237	0.773	0.327	-0.368	0.644

Table 4.5 indicates that accumulated annual investment/cost, with a mean score of 3.170 and a standard deviation of 1.033, indicates a moderate level of investment among the surveyed SMEs. The skewness and kurtosis values suggest a near-normal distribution of responses, implying a balanced approach to investment decisions among the SMEs.

Approximate annual costs, with a mean score of 2.793 and a relatively higher standard deviation, suggests variability in cost management practices across the SMEs. The skewness and kurtosis values indicate a slightly negative skew, potentially suggesting that a subset of SMEs may struggle with controlling costs effectively.

The growth rate of company performance demonstrates a mean score of 3.434, suggesting a relatively optimistic outlook among the surveyed SMEs regarding their growth prospects. However, the skewness and kurtosis values indicate a slightly negative skew, implying that while growth aspirations are present, actual performance may not always meet expectations consistently. Return on capital employed, return on assets, return on investment, and operating profit margin exhibit mean scores ranging from 2.170 to 2.925, indicating moderate levels of financial performance among surveyed SMEs. The findings are in alignment with a study by Muriithi (2019) which highlighted the significance of factors like return on investment and operating profit margin in influencing SME financial performance.

**2. Reliability Test**

Table 6: Reliability Test

The Cronbach's Alpha coefficients range from 0.945 across the different variables. The Environmental Scanning, Market Positioning Practices, and Differentiation Practices variables demonstrate moderate levels of internal consistency, with Cronbach's Alpha values around 0.6. While these values indicate some degree of reliability, they suggest that there may be room for improvement in refining the measurement scales or enhancing the clarity of the items within these constructs. Conversely, the Cost Leadership Practices variable exhibits a high level of internal consistency, with a Cronbach's Alpha coefficient of 0.945, indicating strong reliability in measuring cost leadership strategies within SMEs. This suggests that the items comprising this variable are highly correlated and contribute consistently to the overall construct.

Similarly, the Financial Performance variable demonstrates a Cronbach's Alpha coefficient of 0.835, indicating good internal consistency among the items measuring financial performance metrics. This suggests that the items assessing financial performance, such as return on investment, operating profit margin, and growth rate, align well with each other, providing a reliable measure of SME financial performance in the study. Similarly, Partel (2016) highlighted the importance of internal consistency in measurement instruments to ensure the reliability and validity of findings.

**Correlation Analysis**

Table 7: Correlation Analysis

	Financial Performance	Environmental Scanning	Market Positioning	Cost Leadership Practices	Differentiation Practices	N
Financial Performance	1					53
Environmental Scanning	Pearson Correlation: 0.297*	1				53
Market Positioning	Sig. (2-tailed): 0.031		1			53
Cost Leadership Practices	Pearson Correlation: -0.162	Pearson Correlation: 0.030		1		53
Differentiation Practices	Sig. (2-tailed): 0.247	Sig. (2-tailed): 0.828			1	53
Cost Leadership Practices	Pearson Correlation: 0.469**	Pearson Correlation: 0.699**	Pearson Correlation: -0.043	Pearson Correlation: 0.760	1	53
Differentiation Practices	Sig. (2-tailed): 0.001	Sig. (2-tailed): 0.000	Sig. (2-tailed): 0.417	Sig. (2-tailed): 0.000		53

Examining the relationship between financial performance and environmental scanning reveals a significant positive correlation ( $r= 0.297$ ,  $p= 0.031$ ). This suggests that SMEs engaging in environmental scanning activities tend to exhibit better financial performance. Chen et al., (2021) similarly found that firms with proactive environmental scanning mechanisms tend to adapt better to market changes, leading to improved financial outcomes.

Moreover, the correlation between financial performance and market positioning practices is not statistically significant ( $r= -0.162$ ,  $p= 0.247$ ). This indicates a weak or negligible relationship between these variables. While market positioning is crucial for SME competitiveness, a study by May and Jenevive (2017) may shed light on factors beyond market positioning that influence financial performance, such as operational efficiency and innovation.

Additionally, there is a strong positive correlation between financial performance and cost leadership practices ( $r= 0.469$ ,  $p< 0.01$ ), suggesting that SMEs adopting cost leadership strategies tend to achieve better financial results. This finding aligns with Ombati (2020), who emphasized the importance of cost management in enhancing SME profitability and sustainability.

The correlation between financial performance and differentiation practices is also significant ( $r=0.457$ ,  $p<0.01$ ). This implies that SMEs implementing differentiation strategies tend to have superior financial performance. Johnson et al., (2018) similarly highlighted the role of differentiation in enabling SMEs to command premium prices and gain competitive advantages in the market places.

Overall, these correlation analyses provide valuable insights into the relationship between strategic management practices

and financial performance among manufacturing SMEs in Nairobi County.

### 3. Multiple Regression Analysis

#### Model Summary

Table 8: Model Summary

R	R Square	Durbin-Watson
Adjusted R Square		
Std. Error of the Estimate		

.547a 0.299 0.241 0.73137 1.767

a. Predictors: (Constant), Differentiation Practices, Market Positioning Practices, Environmental Scanning, Cost Leadership Practices b. Dependent Variable: Financial Performance

The model summary indicates that the combination of Differentiation Practices, Market Positioning Practices, Environmental Scanning, and Cost Leadership Practices explains approximately 29.9% of the variance in financial performance (R square= 0.299). the adjusted R square, which accounts for the number of predictors in the model, stands at 0.241, suggesting a relatively moderate fit. The standard error of the estimate is 0.731, indicating the average deviation of observed values from the regression line. The Durbin-Watson statistic of 1.767 suggests that there may be some autocorrelation present in the model residuals. The findings of the model align with a study by McAllister (2016) which emphasized the importance of a holistic approach to strategic management, incorporating factors like differentiation, market positioning, environmental scanning, and cost leadership to enhance SME financial performance.

#### ANOVA

Table 9: ANOVA

	Sum of Squares	df	Square	F
Regression	10.953	4	2.738	5.119
Residual	25.675	48	0.535	
Total	36.629	52		

Table 4.9 reveals a statistically significant regression model (F= 5.11, p= .002), indicating that the combined effect of Differentiation Practices, Market Positioning Practices, Environmental Scanning, and Cost Leadership Practices significantly predicts financial performance. Moreover, the

mean values indicate the amount of variance explained by each variable, with a mean square of 2.738 for the regression and 0.535 for the residual. This suggests that the predictors collectively account for a significant portion of the variability in financial performance beyond what can be attributed to random error. The findings align with Wang et al., (2018) who demonstrated that a comprehensive approach to strategic management, encompassing various practices such as differentiation and cost leadership, positively impacts SME financial performance.

#### Model Coefficients

Table 10: Model Coefficients

Unstandardized Coefficients

Standardized Coefficients	t	Sig.
B	Std. Error	Beta
(Constant)	1.672	0.689
Environmental Scanning	0.134	0.029
Market Positioning Practices	0.239	0.069
Cost Leadership Practices	0.294	0.108
Differentiation Practices	0.455	0.114

Dependent Variable: Financial Performance Source:

The constant term, which presents the intercept of the regression equation, has a value of 1.672 with a standard error of 0.689. this indicates that when all independent variables are zero, the predicted financial performance of manufacturing SMEs in Nairobi County is approximately 1.672 units. The associated t-value of 2.428 is statistically significant at the 0.05 level, suggesting that the intercept significantly differs from zero.

The coefficients of the independent variables reveal the impact of each strategic management practice on financial performance. Environmental scanning shows a coefficient of 0.134 with a standard error of 0.029, indicating that for every one-unit increase in environmental scanning practices, financial performance is predicted to increase approximately 0.134 units. The associated t-value of 4.645 is statistically significant at the 0.05 level, indicating a significant positive relationship between environmental scanning and financial performance.

Similarly, market positioning practices, cost leadership practices, and differentiation practices exhibit positive coefficient of 0.239, 0.294, and 0.455, respectively. These coefficients suggest that as SMEs increase their utilization of

market positioning, cost leadership, and differentiation strategies, their financial performance is predicted to improve. The associated t-values are also statistically at the 0.05 level, indicating significant positive relationships between these strategic practices and financial performance.

#### 4. Discussion of Findings

Environmental scanning practices, such as SWOT analysis and PESTLE analysis, have a moderate level of utilization among manufacturing SMEs in Nairobi County. This finding aligns with Li and Liu (2021), who emphasize the importance of environmental scanning for SMEs to adapt to market changes and improve financial performance. The positive correlation between environmental scanning and financial performance corroborates findings from previous studies, indicating that SMEs with proactive scanning mechanisms tend to fare better financially. However, while SMEs are employing environmental scanning tools, there may be variability in their effectiveness across different businesses, suggesting the need for further refinement or customization of these practices to suit specific context.

The study reveals varying levels of utilization of market positioning practices among manufacturing SMEs in Nairobi County. While offering a large variety of products emerged as a widely adopted strategy, others like focusing on the aesthetic appeal of products exhibited moderate utilization. Interestingly, the correlation between market positioning practices and financial performance was not statistically significant, indicating a weak relationship. This finding contrasts with a study by Johnson et al., (2017), which underscores the importance of market positioning for SME competitiveness. It suggests that factors beyond market positioning, such as operational efficiency and innovation, may play a more crucial role in influencing financial performance among SMEs in Nairobi County.

Cost leadership emerges as a significant predictor of financial performance among manufacturing SMEs in Nairobi County, with a strong positive correlation observed. This result resonates with research by Bill and White (2016), which highlighted the importance of cost management in enhancing SME profitability and sustainability. The study indicates a linear relationship between cost leadership practices and financial performance, emphasizing the need for SMEs to adopt cost-effective strategies to improve their bottom line. The relatively high internal consistency of cost leadership practices further strengthens the reliability of this finding, suggesting a consistent impact on financial outcomes across surveyed SMEs.

Differentiation practices, such as offering unique products or services and emphasizing customer service excellence, are positively correlated with financial performance among manufacturing SMEs in Nairobi County. This finding aligns a study by Nyovest (2019) who emphasizes the role of

differentiation in enabling businesses to command premium prices and gain competitive advantages. However, while SMEs demonstrate moderate utilization of differentiation strategies, there is room for improvement, particularly in enhancing product uniqueness and customer service excellence. The study underscores the importance of differentiation for SMEs aiming to improve financial performance in a competitive market environment.

## V. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 1. Summary of Findings

The first objective of the study was to determine the influence of environmental scanning practices on financial performance of manufacturing SMEs in Nairobi County. The findings of the descriptive statistics indicate that environmental scanning practices play a significant role in influencing the financial performance of manufacturing SMEs in Nairobi County. The mean score for SWOT analysis and PESTLE analysis suggests a moderate level of utilization among surveyed SMEs, indicating their awareness of internal strengths and weaknesses, as well as external opportunities and threats. Moreover, the correlation analysis reveals a positive relationship between environmental scanning and financial performance, indicating that SMEs engaging in environmental scanning activities tend to exhibit better financial outcomes. This underscores the importance of proactive monitoring of the business environment to identify emerging opportunities and threats, thereby enhancing strategic decision-making and ultimately, financial performance. The second objective of the study was to determine the influence of market positioning practices on financial performance of manufacturing SMEs in Nairobi County. The analysis of market positioning practices suggests a mixed level of utilization among manufacturing SMEs in Nairobi County. While offering a large variety of products appears to be the most utilized strategy, other practices such as product quality improvement and aesthetic appeal alignment demonstrate moderate levels of implementation. However, the correlation analysis indicates a weak relationship between market positioning practices and financial performance, suggesting that other factors beyond market positioning may also play a crucial role in determining SME financial outcomes. This highlights the need for SMEs to carefully consider a comprehensive range of strategies beyond market positioning to enhance their financial performance effectively.

The third objective of the study was to determine the influence of cost leadership practices on financial performance of manufacturing SMEs in Nairobi County. The study reveals that cost leadership practices significantly influence the financial performance of manufacturing SMEs in Nairobi County. Both the descriptive statistics and

correlation analysis demonstrate a positive relationship between cost leadership practices and financial performance. Furthermore, the regression analysis confirms the significant predictive power of cost leadership practices on financial performance, underscoring the importance of cost-effective strategies in driving SME success. SMEs adopting cost leadership strategies are likely to achieve better financial results, highlighting the necessity for efficient resource utilization cost control mechanisms within SMEs operating in Nairobi County.

The fourth objective of the study was to determine the influence of differentiation practices on financial performance of manufacturing SMEs in Nairobi County. The findings suggest that differentiation practices also play a crucial role in influencing the financial performance of manufacturing SMEs in Nairobi County. The mean score indicates a moderate level of utilization of differentiation strategies such as offering unique products or services and focusing on customer service excellence. The regression analysis further confirms the significant impact of differentiation practices on financial performance, emphasizing the need for SMEs to innovate and distinguish their offerings to capture market share and enhance profitability.

## 2. Conclusions

The study concludes that environmental scanning plays a significant role in influencing the financial performance of manufacturing Small and Medium Enterprises (SMEs) in Nairobi County. The findings indicate that SMEs engaging in environmental scanning activities tend to exhibit better financial outcomes. This suggests that being proactive in identifying and assessing external opportunities and threats enable SMEs to adapt more effectively to market changes, thereby enhancing their strategic decision-making processes. Contrary to expectations, the study finds that there is no statistically significant relationship between market positioning practices and financial performance among SMEs in Nairobi County. Although market positioning is widely recognized as a crucial factor in determining SME competitiveness, the findings suggest that other factors, such as operational efficiency and innovation, may have a more substantial influence on financial performance. This highlights the complexity of the SME landscape and underscores the need for further research to explore the nuances of market positioning strategies and their impact on financial outcomes. The study affirms the significance of cost leadership practices in driving SME financial performance in Nairobi County. SMEs adopting cost leadership strategies tend to achieve better financial results, indicating the importance of effective cost management enhancing profitability and sustainability. The study's conclusions emphasize the necessity for SMEs to prioritize cost-effective operations and explore avenues for reducing production costs to improve financial performance.

The study concludes that differentiation practices are important in enhancing the financial performance of manufacturing SMEs in Nairobi County. SMEs implementing differentiation strategies tend to have superior financial performance, indicating the value of offering unique products or services and focusing on customer service excellence. The study's conclusions underscore the significance of differentiation as a strategic imperative for SMEs seeking to thrive in competitive markets and achieve sustainable growth.

## 3. Recommendations of the Study

The study recommends that manufacturing SMEs in Nairobi County prioritize and enhance their environmental scanning practices to improve their financial performance. Given the significant positive correlation between environmental scanning and financial performance, as evidenced by the multiple regression analysis and correlation results, it is clear that SMEs benefit from staying abreast of market trends, regulatory changes, and competitive dynamics.

The study recommends that manufacturing SMEs in Nairobi County should pay particular attention to refining their market positioning practices to enhance financial performance. While the correlation analysis did not reveal a statistically significant relationship between market positioning practices and financial performance, the multiple regression analysis indicated a positive and significant coefficient for market positioning strategies.

The study recommends that manufacturing SMEs in Nairobi County consider adopting cost leadership strategies to improve their financial performance. The significant positive coefficient for cost leadership practices in the multiple regression analysis underscores the importance of cost management in driving profitability and sustainability for SMEs. SMEs should focus on identifying opportunities for cost optimization, streamlining operations, and leveraging economies of scale to maintain competitive pricing and improve margins.

Lastly, the study recommends that manufacturing SMEs in Nairobi County prioritize differentiation strategies to enhance their financial performance. The positive and significant coefficient for differentiation practices in the multiple regression analysis highlights the importance of offering unique products or services compared to competitors.

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