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Effect of Cost Leadership on the Performance of SMEs in Nakuru, Central Business District, Kenya

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Abstract:

A plan is considered to be a cautious set of events for attaining advantage that is competitive, giving direction as well as coherence to some of the organization. The way strategy is implemented is a key focus within the Small as well medium-sized initiatives (SMEs) because of its part in generating economic wealth. The use of strategic management has many advantages, however, there are still many SMEs organizations resisting its implementation especially because most people think the procedure is usually valuable for greater businesses and do not distinguish it is supportive for SMEs as a whole. The purpose of the study was to determine the effect of cost leadership and performances of small and medium enterprises within Nakuru, CBD. The study adopted Porter's theory of competitive advantage; Resource based view and McKinsey 7S Model. The study adopted cross-sectional survey design. The study target population was business owners or persons in charge of businesses situated within Nakuru CBD. The study concentrated on 5 most common types of businesses in Nakuru CBD. The study adopted stratified random sampling. The researcher used 30% of the population to arrive at sample size. The researcher used the questionnaire as the primary data collection instrument. Quantitative data was analyzed through the use of expressive and inferential indicators. Descriptive statistics included frequencies, percentages, measures of central tendencies (mean) and actions of scattering (standard deviation). Inferential statistics, particularly regression and correlation analyses were used to establish mathematical models and nature of relationships between variables respectively. Results revealed that Product Differentiation was found to be a satisfactory variable in performance of SMEs. This was supported by coefficient of determination also known as the R square of 53.2%. This meant that product differentiation strategy explain 53.2% of the variations in the dependent variable which was performance of SMEs. The results further meant that the model applied to link the relationship of the variables was satisfactory. The correlation analysis reported that a strong positive and significant relationship exist between cost leadership and performance of SMEs ($r=0.76, p=0.001$). Regression results revealed that Cost leadership was found to be a satisfactory variable in performance of SMEs. This was supported by coefficient of determination also known as the R square of 49.8%. This meant that Cost leadership strategy explain 48.9% of the variations in the dependent variable which was performance of SMEs. Hypothesis test results further revealed that Cost leadership strategy has no significant effect on the performance of SMEs in Nakuru CBD ($p=0.001$) leading to the rejection of the null hypothesis. Based on the research findings, the study recommended that SMEs should always aims at lowering the cost of production in order to reap optimal profits. The study also recommended that market segmentation should be adopted by SMEs to ensure that they stock products or provide services to a variety of customers. Other studies could consider competitive strategies such as innovations and their influence on business performance

Keywords: Cost leadership, performance, SMES, Nakuru central business district

1. Introduction

1.1. Background of the Study

Globally, in Malaysia researchers were able to determine an increasing interest in the role of Small and Medium Enterprises (SMEs) in creating jobs as well as developing economy. Most people and institutions have greatly recognized this sector of both the medium and small-scale enterprises since it is a key sector in the economy development in either the developed countries or those that are still in the development process (Zacharakis, Neck, Hygrave & Cox, 2002). This sector has been recognized due to its revenue generation to the country, job creations, technological advancement and also innovations (Kotey & Meredith, 2007). Therefore, SMEs are some of the key factors that help in the development of a countries economy.

Most countries globally have been determined to be relying on the SMEs over the last years. This is because the level at which these SMEs are developing helps in determining how the economy of the country is progressing. There have

been lack of the right information/ data for a systematic research to be carried out so as to back up the policies that are always being supported for this sector. SMEs have been determined to be crucial in improving the economy of a nation. This is because they are determined to be key areas for innovation, entrepreneurship and also inventions therefore, acting as a reservoir for job creations (Bani-Han & AlHawary, 2009)

Sustainable jobs create income which in turn reduces the level of poverty. Therefore, SMEs are increasingly focusing on studying strategic management and its implementation due to its major responsibility in generation of economic wealth and stability (Bantel & Jackson, 2009). Nevertheless, there is the main discussion on how SMEs need to grow a tactical plan with some studies showing that recognized tactical organization processes are predominantly unsuitable to SMEs which have limited administration and also financial capitals to treat in a well-structured tactical administration technique (Cragg & King, 2008). There are more debates that are being conducted on the improvisation of strategies in the SMEs sector by researchers. They have greatly employed the use of the strategic management tool which helps them in attaining the best and also a competitive advantage which cannot be ignored since it helps in bringing up a positive impact (Analoui & Karami, 2003).

1.1.1. Generic Strategies

Generic Strategies can be defined as the strategies that were developed by Michael Porter that companies can use to achieve competitive advantage. These strategies include; cost leadership strategy, differentiation strategy and focus strategy (Tanwar, 2013). Subsequently, Tanwar (2013) states that, the three generic strategies as originally envisioned by Michael Porter represent the context in which the overall generic strategy of firms is pursued to achieve their strategic options and ultimately achieving competitive advantage. According to (Okwach et al, 2012), how a company competes in their business environment represents their competitive strategy that helps them gain competitive advantage in a unique way. Achieving competitive advantage gives organizations better position, strengthening the organization in the business environment (Brandt, 2013). Porter and Millar (1985) add that competitive strategies result in a strategic positioning giving a firm the competitive edge, and eventually, above industry performance.

Strategic Management refers to the determination of an organization, its actions and plans that help it in achieving that purpose. It is also the number of managerial actions as well as their decisions that help in determining the performance of a business enterprise over a long period. It mainly comprises of formulation and implementation of the best strategies that helps in the alignment of an organization as well as its environment for it to attain its organizational objectives. Strategic management is considered in providing an overall path to most of the enterprises. A sustainable strategic management is largely maintained by the incorporation of a robust analysis which formulates, evaluate, and implement ecological issues, values that support sustainability, and stakeholders' ecological interests. Researchers have greatly associated some of these strategies in business with their enactment, therefore, differentiating those strategies of either the low performance or a higher performance (Marangu et al, 2017).

More often profitable strategies in the business are usually identical actions that mainly lead to achievement of the organization; that is main success issues. These actions are related to initiatives of the industry. Researchers have recognised such enterprises to comprise more importance on quality of the products, product as well as service inventions, emergent of new working technologies, and discovering new markets areas. Activities related to very profitable strategies also include but not limited to an importance on extensive advertising, customer service and support, and use of peripheral finances (Covin, 1991).

Strategic management is considered to be a key element within the SMEs firing at most of the strategies and moving onward. Nevertheless, so far, researchers essentially look into strategic management within the large organization with very limited literature investigating the protagonist of practices that are strategic in management of SMEs. Small and Medium-sized enterprise is crucial for business development and economic growth due to how they contribute to job creation and to the inventions and great technological advancement. Thus, the survival, existence, and development of SMEs are completely indispensable in a healthy functional business environment. According to numerous strategic management pieces of literature, stratagems are vital for creating reasonable benefits for SMEs (Coulter, 2008).

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In cost leadership, an organization's objective is to become the low cost producer in its industry. The foundations of cost advantage can be varied and many depend on the nature of the industry (Allen & Helms, 2001). These may be due to economies of scale, proprietary technology, preferential access to raw materials, and many more. A low cost producer usually establishes and takes advantage of all sources of cost advantage (Sashi & Stern, 2008). The assumption is that when an organization achieves and sustains overall cost leadership, then it will have above average performance in its industry, as long as it can command prices at or near the industry average (IFM, 2016). Overall cost leadership requires

organizations to develop policies aimed at becoming and remaining the lowest-cost producer and/or distributor in the industry.

Differentiation strategy can be defined as the designed set of actions to products goods and services that customers perceive as being different in ways that are important to them (Bani-Han & AlHawary, 2009). With a differentiation strategy the organization develops product or service features which are different from competitors', are enticing to customers and functional, customer support and product quality (Ramayah, Samat & Lo, 2011). Differentiation includes manufacturing products or offering services unique in relation to and more appealing than those of competitors (Zekiri & Nedelea, 2011). In a differentiation strategy an organization's aim is to be unique in the industry along some parameters that are widely valued by buyers (IFM, 2016).

For differentiation strategy to work, customers must be relatively price-insensitive. Including product features means that the production or distribution costs of a differentiated product may be higher than the price of a generic, non-differentiated product. Customers must be willing to pay more than the marginal cost of adding the differentiating feature if a differentiation strategy is to succeed. Differentiation strategy includes warranties, brand image, technology, features, service, quality (value) and dealer network (Rahman, 2011). Rahman (2011) state that firms pursuing a differentiation strategy are usually vulnerable to different competitive threats than firms pursuing a cost leader strategy.

According to Bansal (2008), the generic Focus strategy is founded on the choice of a narrow competitive scope within an industry. The organization adopting this generic strategy selects a niche or group of niches in the industry and customizes its strategy to serving them to the exclusion of others. For example, in cost focus the organization seeks a cost advantage in its target segment, while in differentiation focus the organization will seek differentiation in its target market niche. Treacy and Wiersema (2009), explain that firms that apply Focus techniques give attention to certain specialty markets and, by comprehension the flow of these specialty markets and the remarkable needs of customers inside them, grow exceptionally with ease or very much indicated items for the market. An advantage of this approach is that such organizations serve customers in their market uniquely well, therefore tending to build strong brand loyalty amongst their customers. This makes their particular market segment less attractive to competitors (Ramayah, et al., 2011).

1.1.2. The Concept of Strategy

Business strategies are considered to be set of plans that determines the competitive situation of a body (Mintzberg & Quinn, 2011). The tactic is mostly defined as a clear set of activities to attain some modest advantage, therefore, giving the right direction and also coherence to the organization (O'Regan & Ghobadian, 2005). Studies show that an organization might be having either multiple or single strategies which can potentially exist at three levels such as the business unit level, corporate level, as well as functional level business strategies. A specific business strategy which mainly describes how competitive firms are usually varies from one organization to the other (Mintzberg & Quinn, 2011). For example, some businesses may select to be competitive through the production of superior products or even manufacturing those products at a cheaper price. Main tactics within a business are realised through some main functional sections of production, finance, human resource management (HRM), research and development (R&D) and marketing. Every functional tactic comprises of numerous events. Hence, actions serve like directors to the recognition of main business tactics (Nath & Sudharshan, 2014).

There are some three main ranks at which plans are accomplished within the organizations such as businesses, corporates, and also other practical stages. Corporate policies are used to determine how a business should look like and how its main events are to be managed and structured. This kind of strategy is accountable to defining the firm's key objectives and mission, through the validation of any proposals that might be emerging from the business and also within its functional stages and also helps in the allocation of capitals with the intellect of planned urgencies (Hax, 2011).

In addition to maintaining competitive leverage in each strategies business unit, strategies within businesses are mainly disturbed by how firms are competing in a specific business environment (Coulter, 2008). The competitiveness of most organizations is mainly determined by operational or functional strategies which are temporary (less than a year) goal-directed actions and also some decisions of these establishment's purposeful sectors (Coulter, 2008). These key efficient sections include: marketing, finance, human resources, production, and operation. To fund business & company tactics, business is required to maintain a competitive policy from each useful sector. However, in studies on SMEs shows there is no main agreement on the explanation of strategy is with different scholars defining strategy in different ways (O'Regan & Ghobadian, 2015).

1.1.3. The Organizational Performance

The word "organizational performance" is basically employed in three time-senses-the past, present, and the future. Therefore, performance can denote to something accomplished, or something that is current, or actions that prepare for fresh requirements. Profitability, is often considered as the ultimate performance pointer, but not as the actual presentation. Enactment of businesses is usually determined on the prescribed indicators or standards of efficiency, effectiveness, and also some environmental accountability like cycle time, manufacturing, reducing of wastes, and complying with the regulations. Performance is also used in reference to determine how a particular request is taken care of handled, or the act of executing something in the right manner; using understanding as eminent from being in its possession. It is usually the results of operations carried out by organizations and its strategies (Venkatraman & Ramanujam, 1986). Systems of measuring performance mainly provide some level of foundation in the development of some strategic plans, and also in assessing the completion of objectives and goals of an organization (Alderfer, 2003).

The concept of performance of an organization was established around the idea that any specific organization is to be a charitable connotation of some manufacturing possessions, comprising of physical, technological, capital resources, and human, therefore, to accomplish a mutual purpose (Barney, 2002). Richard et al. (2008) stated that the performance of organizations involves three key areas of the results of a firm: (i) financial presentation (returns on their assets, profits, returns of their investment, etc.); (ii) performance within the market (sales, marketing of shares, etc.); and (iii) returns of the shareholders (total shareholder's returns, value addition of their economy, etc.). The profitability of SMEs partly depends on better economic presentation and on how most employees and entrepreneurs work together so as to fulfil their actions and objectives in a joint and coordinated basis. According to a study conducted by Roper (1998), entrepreneurship is a development lever that helps in determining if a business venture shall be able succeed or will fail.

1.1.4. The SME Sector in Kenya

In Kenya, SMEs include firms of different sizes & features such as very small start-up organizations and to well-structured SMEs. These SMEs are characterized by employing 50 to 200 staffs and operating capital assets of about KES 2 million (without property). Recently, the increasing credit and size request of SMEs have outpaced the apparent growth and capacity of micro finance institutions, which are the majorly known to be offering short and small loans through group-lending policies. Therefore, the capacity of SMEs risk profile together with the absence of lenders' sophisticated risk valuation methodologies make many SMEs unwanted as credit customers for business banking.

Small and Medium-sized enterprise contribute by large to formation of "decent" job opportunities; on the dynamic front, they are considered to be a nursery for larger futuristic firms and a key step-up for improving micro enterprises. In addition, SMEs are direct contributors to aggregate savings and investment and as such play some critical roles in the growth of appropriate novel technologies (United Nation Industrial Development Organization (UNIDO, 2002). Further, the SMEs area also a make a substantial contribution to the country's economy by being a main entity that facilitates growth of the economy by creating jobs, improvement of productivity in that way contributing hugely to the country's GDP growth. A survey conducted in 2007 by the International Financial Corporation (IFC) on SME market established that majority of SMEs have by large contributed the increasing employment opportunities in the country.

1.2. Statement of the Problem

The small and medium-sized enterprises (SME) sector are involved in critical roles in developing economies like Kenyan's with SMEs hugely influencing economic development, job creation and poverty mitigation. However, this area is affected by numerous constraints especially in accessing finance, markets; training and technology. Despite numerous advantages of strategic management within enterprises, there exists many SMEs organizations that fight the use of it, this is because most of them thinks the process being involved is useful to only larger enterprises and due to this, they never put it into consideration (Pushpakumari & Watanabe, 2010). Just like in any other part of Kenya SMEs in Nakuru are facing various challenges during their growth and development. Lack of strategic goals is one of the major challenges facing the growth of SMEs. Nakuru Central Business District has for the past 10 years experienced an influx of population this has resulted to the expansion of the market. Despite the expanded market majority of SMEs are experiencing delayed growth this can be attributed to poor strategic planning.

Various studies have been conducted on SMEs. Wasonga et al (2008) conducted a study on the factors influencing both small as well as medium enterprises (SMEs) within Kenya and concentrated the study at Fina Bank. However, the study was specifically on the banking industry and would not apply in SMEs. Mulinge (2009) conducted a study on the marketing observers accepted by SMEs that dealt with footwear and clothing within Makueni District, however, this study only concentrated on footwear and clothing enterprises only and would not apply to any type of SMEs. Pemberton (2002) conducted a study about strategic planning within SMEs in UK. However, this study in United Kingdom may not apply in Kenya as the context of study differs. Locally, none of existing studies have been done on the effect of generic strategies and performances of small and medium enterprises within Nakuru Central Business District, Kenya. Therefore, the study sought to answer the question. To what extent does cost leadership influence performance of small and medium enterprises within Nakuru, Central Business District?

1.3. Research Objective

The general objective of the study was to establish the effect of cost leadership and performances of small and medium enterprises within Nakuru, Central Business District, Kenya.

1.4. Research Hypotheses

- H_{01} : Cost leadership strategy has no significant effect on the performance of SMEs in Nakuru Central Business District, Kenya.

1.5. Significant of the Study

This research is expected to give insights to main government bodies on how they can form a foundation for helping and also attracting the development of both small and medium enterprises. Moreover, this study acts as a guide in the government on how they can regulate the businesses and enact rules and regulations to guide them. Also in making the national policies, the government help in ensuring tax rates are favorable to these small scale businesses. This study sought to act as a guide to Development Financial Institutions (DFIs) in choosing SMEs they usually support with their resources like capital, capacity and grants building. Some of these DFIs which are willing to guarantee SMEs' bank borrowings.

Include African Guarantee Fund (AGD). In addition, some DFIs for example international financial corporations would be willing to provide the small and medium enterprises in Kenya with financial support. This kind of study also helped main banks to select any kind of SMEs which they can lend to.

This study is of worth to managers as well as owners of the SMEs while making appropriate strategies for their firms to enhance modest advantage and performance. Additionally, this study will also highlight the major management strategic practices crucial in the growth and survival of SMEs and such credible information are of immense worth to present SMEs and any prospective proprietor as it can inform future strategic decisions in organizations. This study is a cause of situation material to the future researchers on the topic and other related topics; it also helps other researchers who accept similar topic in their studies. This study shall also expect to highlight other important areas in the study that require further research.

1.6. Scope of the Study

The study focused in determining the effect of cost leadership and performances of small and medium enterprises within Nakuru Central Business District. The study target population was 189 business owners or persons in charge of small and medium business within Nakuru Central Business District. The study concentrated on 5 most common types of businesses. The research period was between the years 2017-2019.

2. Literature Review

This chapter mainly involves appraisal of literature that is connected to this study. It covered the theoretical framework on managing strategically and the empirical review. The literature greatly involves practices of strategic management, adoption by small and medium enterprises (SMEs).

2.1. Theoretical Literature Review

There are several models that have seen the development of strategic management. The theories below have helped anchor this research.

2.1.1. Porter's Theory of Competitive Advantage

The dominant paradigm in strategy was the competitive force's approach as early as in the 1980s. An approach by some competitive forces that are pioneered by Porter (1980), state that there is the need of having some formulation on some competitive strategies that include 'relating businesses within their environments'. The major aspect of the environment that firms exist within is the industries that they are competing with in their sector. There is great influence of these industries that include the rules that are competitive and also some of the strategies that are readily available to these enterprises. Within the model of competitive forces, five industries level forces-entry barriers, how buyers are powerful in bargaining, substitution threat, suppliers bargaining power and also rivalry within incumbents in a sector usually determine some essential advantageous potential of certain industries or within the sub-segment of these industries. These kinds of approaches are mainly used so as to assist these firms in finding position within the industry where it defends itself from competitive forces that can influence them in their favour (Porter, 1980).

This 'five-Force' context generates an efficient method of thinking on how modest forces mainly perform in the industry level as well as how these forces regulate the productivity of diverse industries and their sections. A framework of the competitive forces mainly contains several assumptions on the sources of the competition and also the strategy process's nature. Strategies that are available are defined in Porter (1980). Ideally, competitive policies are frequently designed to changing the businesses position within the competitors vs. industries and suppliers.

The arrangement of the industry mainly plays significant roles in the determination and limitation of some strategic actions conducted. Several subsectors and industries are more 'attractive' since they have some operational impediments within the modest forces (e.g. entry barriers) that permits businesses better prospects in the creation of advantages that are competitive and sustainable. Rents are generally formed mostly in the industries or rather subsector level instead of at the business level at it would have been expected. There is great acknowledgement given to businesses on the specific assets, changes within businesses communicate primarily to scale. This tactical method shows its incubation in the industrial association, specifically within industrial arrangement school of Mason and Bain (Teece, 1984). For the SMEs to continue being competitive they must specialize in offering an affordable price to the majority of their customers.

2.1.2. Resource-Based View (RBV)

This theory was developed by Birge Wenefeldt in 1984. This method involves identification and analysing business's management strategic advantages that are founded within the investigative its different grouping of skills, assets, intangibles and capabilities as an organization. The basic principle of RBV premise is that any given specific organization is fundamentally different from each other because each firm has a "unique" package of funds intangible and tangible resources and abilities of the organization so as to use of those resources. When an individual firm develops good competencies from the specific resources, then these competencies develop to be the key source of a business's competitive benefit (Pearce & Robinson, 2007). This theory illustrates that the resources that a firm has will play key part in the strategic implementation process. This is because no matter how blameless the strategies are, without the necessary resources to enable the implementation, they remain in the planning phase.

The resource-based view (RBV) emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analyzing sources of competitive advantage (Peteraf and Barney, 2003). First, this model assumes that firms within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (i.e., some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate). Resource heterogeneity (or uniqueness) is considered a necessary condition for a resource bundle to contribute to a competitive advantage. The argument goes "If all firms in a market have the same stock of resources, no strategy is available to one firm that would not also be available to all other firms in the market" (Cool, Almeida Costa and Dierickx, 2002). The resource-based method enables businesses with higher structures and systems being cost-effective especially because they involve themselves within the strategic investments that might discourage entries and raise the prices beyond long run costs. However, such firms have substantial lesser costs or even bid a markedly higher product or quality recital.

2.1.3. McKinsey 7S Model

The McKinsey's 7S Model was created in the early 1980s by the consulting company McKinsey. Since its inception, the model has been extensively involved by consultants and academics alike in analysing hundreds of organizations. The McKinsey 7S model is especially unique because it had been formed to be easily remembered and recognizable framework within the business community. These seven variables, which this writer termed "levers", all begin with the letter "S": They mainly include skills, style, strategy, systems, structure, staff, and also the pooled values. This structure has been demarcated as the basics of the organizational chart or the organizations. The writers also define the strategy as a course or plan of action in the allocation assets so as to attain recognised objectives over time. The systems are the routine procedures and processes followed in the organization. The staff is described in terms of personnel categories within the organization (e.g. engineers), while the skills adjustable refers to abilities of staff in the association. The behaviour of key managers in realizing the goals of organizations is reflected to be variable of style; this adjustable is believed to include cultural flair of the association. There are some shared values, initially termed the great ordinate objectives, denotes the main meaning or even the guiding of ideas that business members share (Peters & Waterman, 1982).

The seven constituents defined above are usually broadly characterized as either soft or hard component. The firm constituents are the policies, structure, as well as the structures which are generally easy and feasible to the identification within the organization as they ordinarily well recognized and portrayed as reports or tangible objects including corporate plans, strategy statements, administrative charts, and other official papers. The outstanding four Ss, are more problematic to understand. The abilities, values, as well as essentials of business culture, such as, unceasingly emerging and can be changed by those at work in the organization. It is possible to comprehend these kinds of features by learning the association very closely, usually through interpretations and/or through holding of consultations. Some connections, nevertheless, are completed either by soft components or hard ones. For instance, a rigid, categorised organizational arrangement usually causes a bureaucratic administrative culture at which the power is centralized at the higher management level.

It has been determined that easier constituents on the model are problematic to changes and some of these key problems in any strategic change management. Overcoming the resistance of the staff and also culture change, specifically those that alter structure of power within the businesses and also some inherent standards of some organizations, have been difficult in their management. Nevertheless, if these features are changed, they cause huge change in the structure, policies and also systems of the association. In order for SMEs to survive the competition, they should ensure the quality of their product.

2.2. Empirical Review

2.2.1. Cost Leadership Strategy and Performance of SMEs

The organizational goal of some policies in the leadership of costs is highly informed by the necessity to bid facilities or products at the lowest cost in a business environment. Firms which need to get a higher return on what they have invested in and also get lots of profit and be successful then they should consider operating their businesses at lower prices than their main competitors in the industry. This can be achieved through three main factors (Kotler and Armstrong 2010). One of the major methods is by attaining higher asset income. In industrial services such as restaurants, this may mean turning tables around very quickly, while in an airline it may mean turning around flights at a first rate. In production, it will comprise the manufacture of high capacities of production. These kind of tactics usually refer to a constant cost that are usually extended over greater numbers of units of the facilities or products, therefore, resulting to some cheaper costs, i.e. the business hopes in taking the advantages of economies and it experiences some curve effects (Chesbrough, Rosenbloom, 2002).

However, in industrial corporations, large production acts as a policy and an end to itself. Specifically, greater amounts of production both needs and the outcome within the high market shares and also the creation of entry obstacles to some possible challengers, who are usually unable to accomplish the measure necessary so as to contest the firms' low prices and costs. The other kind of dimension is lowering both the indirect and also direct functioning prices. This is attained through the donation of large volumes of goods that are standardized, donating elementary no-frills goods and limitation of customization as well as personalization of these kind of facilities.

Basically, production costs are maintained at lower levels by using fewer average constituents and lowering the sum of models being manufactured in ensuring larger manufacture is done (Gregson & Andrew 2008). Overheads are maintained at a lower stage through the payment of low wages, location of premises within areas of low rent, establishment of a culture that is cost-conscious etc. To maintain this approach, it is essential to continuously examine for reductions of costs within all features of the corporate. This involves the subcontracting, control of production prices, increasing capacity of the properties utilization, and also reducing other prices including circulation, R&D, as well as marketing. Ideally, the protagonist of related supply approach is basically to acquire a possible extensive supply. Advertising plans usually includes trying to produce a feature out of lower costs good features.

The other aspect is regulator over finding sequence to confirm low prices. Switch of procurement series could be attained through wholesale buying in an effort to relish quantity markdowns, introducing competitive bidding for contracts, squeezing contractors on worth, collaborating with vendors so as to ensure inventories using cheaper methods like Just-in-Time acquiring or Vendor-Managed Inventory. For instance, Wal-Mart is prominent for pressing its providers to certify cheaper costs for their own products (Kotler and Armstrong 2010) while Dell Computer attained a share in the market by ensuring their inventories lower and at the same time only manufacturing computers to demand. Other obtaining benefits were coming from privileged admission to raw constituents or backward incorporation.

Some literature assumes that the strategy of leadership of costs is only feasible for great organizations with a chance of enjoying the markets of scales also larger manufacturing quantities. However, in this case there are limited strategies within the industry to be viewed. Small enterprises are also considered to be leaders in the prices of products if they are greatly getting some benefits of cheaper costs of products. These usually includes, some local hotels within an area that is cheaper and mainly attracts customers that are price sensitive while it offers a menu that is limited, has a turnover that is rapid and create jobs that requires minimum amount. The invention of such goods or processes can help a startup or other smaller companies by offering cheaper services and products at which the incumbents' prices and costs are higher (Monroe, 2004). One of these examples is the achievement of any lower costs within the airlines that even if they have less planes than big airlines, they are gaining some growth within the market shares since they offer services that are cheaper and have no-frills at costs that are lower compared to those of their competitors.

This strategy of leadership of costs usually have some demerits of less loyalty by the consumers, as consumers who are sensitive on the prices will change when there are substitutes that are priced lower. The status as a main leader in the prices can also affect the reputation of the business especially if the cost leader has the status of lower quality, which can make it difficult to businesses in rebranding themselves or their products if they choose to change to a strategy that is differentiated in the future. This aspect is not considered to be a separate plan but refers to the level at which a firm should be competitive as based on leadership of prices or differentiation. A firm can prefer to compete within the market that is diverse (like Wal-Mart) with a larger level, or in described, focused section of the market where the scope is narrow.

However, either way, the basis of the competition will remain differentiation or price leader (Amit and Zott 2001). In the adaptation of some narrow focus, the firm mainly targets few numbers of markets (also known as the segmentation plan or as the niche policy). These should be different groups that have specialized needs. In an ideal situation, the selection of either offering cheaper costs or products/services that are differentiated should be informed by the requirements of some targeted sections and the business's assets and also its capabilities.

It is expected that by targeting the determinations of your marketing within two or more market sections and also the tailoring of the marketing mix of the specific market areas, you can meet your requirements efficiently within the targeted market. Marketing leadership within one of the three main fields, and performs to a level that is acceptable to two others that involves Operational and Consumer Intimacy (Gregson and Andrew 2008). This excellence in the operations usually aims in accomplishing the leadership of prices. Here the key emphasis centers on systematizing manufacturing procedures and work processes so as to modernize actions and diminish price. However, the approach advances itself to transaction-oriented, high-amounts, and homogeneous manufacturing that has very diminutive need for much distinction. It is perfect for marketplaces where consumers value price over the high-quality, which is usually an event of maturity, commoditized markets in which the leadership costs offers a vehicle for a continuous development. Notably, operational excellence leaders have a standardized outlook and strongly with robust organizational discipline.

Cost leadership policies supports companies to manufacture the standard, large volume goods or service that is in a modest price for consumers. The goal of emphasis on leadership in policies is basically to make a high performance of finance for companies contending in the countries with upcoming economies like Brazil, China, and India, as companies can obtain a comparative benefit because of low prices within labs our alternative and manufacturer (Aulakh & Teegen ,2000). In addition, from the consumers' perspective, the strategy of cost leadership is key in emerging economies as it offers the goods or facility to those people having low level of nonrefundable income (Caroline 2008).

A study by Lahtinen and Toppinen (2006) showed that the cost-leadership pointers describe well about short-term performances in finance than creation of value added, which got fondness on longer-term performances and revenue progression in the future. They found out that productivity of cost is a precondition for any enterprise, and also within current worldwide economic downturn is best example of confirming their validity. Value-added manufacture is a requirement to support the sustainability of an economy in a business. According to Valipour & Birjandi (2012) if a firm's approach is biased towards the strategy of cost leadership, with upsurge in financial leverage and Dividend payments; the presentation will eventually increase. The company's performance can be inversely related with the financial leverage multiplication strategy variable.

According to (Marangu et al, 2017), the purpose of the study was to analyze influence of cost leadership strategy on organizations' competitiveness of sugar firms. The study was based on the following theories; competitive advantage,

generic framework and resource based. To be able to achieve the study objective, it was essential to establish the associations between the different variables associated with the study variables in relation to the sugar firms hence descriptive cross-sectional research design was used in this study. The study's target respondents were twenty (20) managers from every sugar firm and its affiliated farmers' sugar cane out grower firms. In order to simplify the process of sample size determination for researchers, Krejcie & Morgan (1970) created a table based on the formula which shows the population of study and the expected sample size.

According to the table, when the population is 240, then the sample size should be 148. Therefore the sample size of this study was 148. Questionnaires were the data collection instrument of this study mainly to collect the primary data and they were administered to the respondents by the researcher himself. Before the data was subjected to statistical analysis, it was subjected to factor analysis in order to prove the data suitability for statistical analysis. Correlation analysis was carried out in order to measure strength of association between cost leadership strategies. The model summary or goodness of fit model results also demonstrated that cost leadership strategy had explanatory power over organizations' competitiveness of sugar firms' in that it accounted for 53.2 percent of its variability ($R^2 = .532$) hence the study rejected hypothesis H01 and states that the influence of low cost leadership strategy on organizations' competitiveness was statistically significant.

In an empirical study by (Valipour et al 2012), the study empirically investigates the effects of business strategies on the relationship between financial leverage and the performance of firms. The research data is collected from 45 firms in the Tehran Security Exchange (TSE) during 2003-2010. The statistical technique is used to examine the assumption of multiple regressions. To test the assumptions, firms were divided into 2 groups: firms with cost leadership strategy and firms with product differentiation strategy. The results indicated that in the firms with cost leadership strategy, there were positive relationships between leverage; cost leadership strategy and dividend payout with performance. The results also suggested that there were positive relationships between leverage and firm's size with performance in the firms with product differentiation strategy, but the relation between product differentiation strategy and dividend payout with performance was negative.

According to (Palepu and Healy, 2008), a firm may produce a relative low profit margin by adopting the strategy of cost leadership. Cost leadership strategy helps firms to produce the standard, high-volume product or service at the most competitive price to customers. By emphasizing on a cost leadership strategy is largely to create higher financial performance for firms competing in emerging economies, as firms can gain a relative advantage because of their lower costs in labor recourse and manufacturing. Furthermore, from the customers' point of view, the strategy of cost-leadership catches the most charming issue (lower price) in emerging economies, offering the product or service to people with low level of disposable income (Birjandi et al 2014). If a firm can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average.

On performance measurement Teeratansirikool et al (2013) sought to assess the competitive strategies and firm performance: the mediating role of performance measurement. This study finds that generally, all competitive strategies positively and significantly enhance firm performance through performance measurement. Specifically, firms' differentiation strategy not only has a direct and significant impact on firm performance but also it has indirect and significant impact on firm performance through financial measures. Cost leadership strategy that firms pursue does not directly affect firm performance. However, it does so indirectly and significantly through financial performance measures. In Albania (Pulaj & Cipi, 2015) sought to find out the impact of generic competitive strategies on organizational performance. The evidence from Albanian context. Specifically the study sought to examine the relationship between competitive strategies and organizational performance. The paper reports findings on the relationship between the Porter's generic strategies (cost leadership, differentiation) and firm performances. The study found significant positive effects of cost leadership, differentiation and focus strategies on performance.

While casing Somaliland beverage industry (SBI) (Amira et al 2015) sought to examine effect of Porter's generic competitive strategies and its effects on the performance of Somaliland Beverage Industry (SBI) in Somaliland. The study found out that SBI minimizes the cost of sales due to the trading of market share and to satisfy their customers to obtaining a high profit, the study also found out Companies that wish to be successful must establish tight control of production and overhead costs because in manufacturing companies production costs and overhead costs if not controlled can make a company to lose profitability and hence competitiveness due to increased total costs. The study found out that producing more units can minimize the costs of production per unit. The study also revealed that SBI soft drinks satisfy customers more than soft drinks of other companies in Somaliland's beverage industry. The study found that the company has unique products that are different from other companies to achieve competitive advantage. The study concludes that cost leadership affects performance of SBI in Somaliland through achieving economies of scale. On the objective concerning differentiation, this study concluded that differentiation strategy affects performance of the SBI in Somaliland. The study also concluded that market focus affected performance of the SBI through various aspects such as practicing segmentation based on benefit sought by the customers, physiological aspects of the customers and income level of the customers.

In Automobile Industry (Fathali, 2016) examined the impact of competitive strategies on corporate innovation: An empirical study in Automobile Industry. This study is devoted to the empirical assessment of the impact of competitive strategies on corporate innovation in the automobile industry of Iran. The study involves a questionnaire-based survey of managers from two major automobile manufacturers (SAIPA and Iran Khodro) in Iran. A total of 286 useable questionnaires were received from managers from the two manufacturers. These were subjected to a series of correlational and regression analyses. The measures of the independent (competitive strategies) and dependent

(corporate innovation) variables are based on literature. The results reveal that competitive strategies of Porter had a positive and significant influence on corporate innovation. With strong statistical significance, three competitive strategies-cost leadership, differentiation, and focus-provide an explanation for variations in corporate innovation dimensions including innovation in product, innovation in process, and administrative innovation. Although the literature has long pointed out the importance of competitive strategies as a determinant of innovation, strategists have not focused on the impact of each strategy on the dimensions of innovation.

2.3. Conceptual Framework

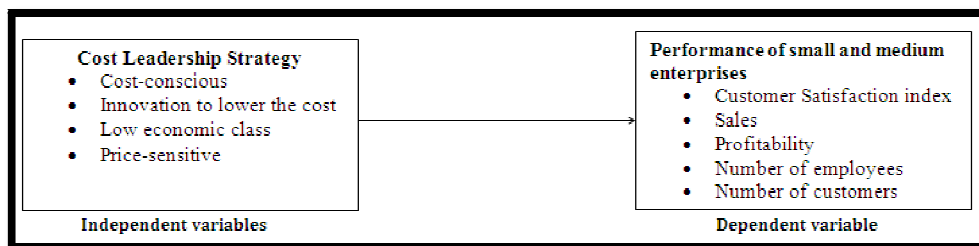


Figure 1: Conceptual Framework

2.4. Chapter Summary

Chapter two covered literature review grounded on the aims of this particular study derived from both local and international studies on the presentation of income generating proposals and their sustainability in Kenya. It also contained theoretical literature review, empirical literature review, conceptual frameworks and operationalization of variables.

3. Methodology

3.1. Introduction

This chapter describes the procedure that was used by the researcher while conducting the study. It specifies the population that was studied, the approaches that were used to model it, the tools that were employed in collection of data and measures that were used in analyzing of data.

3.2 Research Design

The study adopted cross-sectional survey design. According to Cooper and Schindler (2003), a cross-sectional survey design is apprehensive to determining what, how and where of a phenomenon. Cross-sectional survey enterprise is selected because it enables the investigator to generalize the conclusions to a greater population. Survey research method provides quantifiable information from the cross section of a population that had been chosen. (Mugenda and Mugenda, 2003).

3.3. Target Population

Mugenda and Mugenda (2003) defined population as, the complete group of personalities or goods under contemplation in any area of inquiry and have a similar characteristic. The study target population was 189 business owners or persons in charge of small and medium business within Nakuru CBD. The study concentrated on 5 most common type of businesses. Table 1 indicated the number of businesses in each category that were used in the study.

Businesses	Number of Businesses	(%)
Boutiques	25	13.2
Saloons	42	22.2
Mobile phone accessories	32	16.9
M-pesa businesses	53	28.0
Cyber cafés	37	19.5
Total	189	100.0

Table 1: Target Population

3.4. Sample and Sampling Technique

According to Mugenda and Mugenda (1999), a sample size of least 30% of the total population is adequate for a study. In this case, the researcher used 30% of the total population giving a sample size of 57 out of the total population. The study adopted stratified random sampling. The advantage of using stratified random sampling is that each member of the subset has an equal probability of being chosen. A simple random sample is meant to be an unbiased representation of a group. The sample size from each stratum was selected by getting the product the overall sample size and the ratio of population in each stratum to total population as presented in Table 2.

Businesses	Number of Businesses	Ratio of Stratum Population To Total Population	Sample Size (N)
Boutiques	25	0.132	8
Saloons	42	0.222	12
Mobile phone accessories	32	0.169	10
M-pesa businesses	53	0.280	16
Cyber café	37	0.195	11
Total	189	1.0	57

Table 2: Sampling Frame

3.5. Research Instrument

The researcher used questionnaire as an instrument of primary data collection. According to Jankowicz, (2005) questionnaires are any written instruments that present respondents with a series of questions or statements to which they are to react either by writing out their answers or selecting from among existing answers. The questionnaire included closed ended questions which helped in collection of the views and opinions from the respondents. The study also used secondary data that were collected from the financial records of SMEs. The advantage of questionnaire is ease of distribution, collection and data analysis, standardization of the questions and cost efficiency. The design of the questionnaire was based on a multiple-item measurement scale. A five-point Likert type scale was employed, using a list of response categories ranging from strongly agree to strongly disagree where 5=Strongly Agree, 4=Agree, 3=Undecided, 2=Disagree and 1=Strongly Agree. The respondents comprised of managers of the sampled SMEs. The questionnaire was used to collect qualitative and quantitative data.

3.6. Pilot Study

The study carried out a pilot study on 6 SMEs within Nakuru Central Business District. The 6 SMEs was 10 % of the sample size as argued out by Mugenda and Mugenda (2009) that a pilot size should be at least 10% of the sample size. The individual SMEs used in piloting was not used in final study. The information generated was used in improving reliability and validity of the instruments.

3.6.1. Validity Test

The validity of the questionnaire is concerned with the data collection instrument being able to measure what is intended to measure and accurately achieves the purposes for which it is designed (Kothari, 2004). The face validity was undertaken through the use of pilot study while content validity was ensured through the use of expert and supervisor opinions.

3.6.2. Reliability Test

The reliability of the questionnaire measures the degree to which an instrument measures the same way each time it is used or the ability to replicate the same results upon repeating the research using the data collection instrument in similar conditions(Kothari, 2004). The reliability of the questionnaire was examined using the internal consistency. Internal consistency is the measure of reliability which is concerned with the extent to which measures of the same construct are consistent with each other(Cooper & Schindler, 2008). The Cronbach Alpha coefficient was used to measure the internal consistency. This study used a Cronbach Alpha coefficient of a minimum of 0.7.

3.7. Data Collection Procedure

The data was mainly collected using questionnaires. After pilot study, the researcher sought the permission of the SMEs owners in advance to allow the study be carried out in their business premises. The researcher then printed the required number of questionnaires for final distribution. The researcher used assistants to distribute the questionnaires to selected respondents and collect them once completed. Drop and pick method was used to give the respondents enough time to fill the questionnaire.

4. Data Analysis and Presentation

Data analysis includes decrease of collected data to a size that is practicable, creating summaries, looking for configurations and relating to statistical techniques. Qualitative data was analyzed using thematic content analysis which was presented in a text document. Quantitative data was analysed by use of descriptive and inferential statistics through the help of Statistical Package for Social Sciences (SPSS) version 24. Descriptive statistics included percentages, frequencies, measures of central tendencies (mean) and measures of dispersion (standard deviation). Data was then presented in graphs and tables. Correlation analysis was used to establish the nature and the direction of the relationship between the dependant and the independent variables. Multiple regression and simple linear regression were used to

establish the effect of the predictor variables in predicting the dependent variables. The following regression model guided the study.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where,

Y = Organization Performance of SMEs

β_0 = Constant

X_1 = Cost leadership Strategy

ε = Error Term

Objective	Hypotheses	Analysis Model	Interpretation of Results
Objective 1 To determine the effect of cost leadership on performance of SMEs in Nakuru Central Business District.	H ₀₁ : Cost leadership has no significant effect on the performance of SMEs in Nakuru Central Business District.	Simple Regression analysis $Y_1 = \beta_{01} + \beta_1 X_1 + \varepsilon_1$ Pearson's product moment Correlation coefficient (r)	Coefficient of determination R ² =0.7 or more indicates perfect fit of regression model. r=0.700 or more indicates a strong positive relationship and r=0.300 or less indicates a weak relationship. P-value < 0.05 shows significant correlation between variables

Table 3: Summary of Data Analysis

4.1. Chapter Summary

The chapter sought to explain how the research was conducted. It helps other researchers in understanding one's study, particularly where the research was conducted how it was conducted and when it was conducted.

4.1.1. Response Rate

The number of questionnaires that were administered were 57. A total of 49 questionnaires were properly filled and returned. This represented an overall successful response rate of 86% as shown on Table 4

Response	Frequency	Percent
Returned	49	86%
Unreturned	8	14%
Total	57	100%

Table 4: Response Rate

According to Mugenda and Mugenda (2003) and also Kothari (2004) a response rate of above 50% is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable to analyze and publish, 60% is good, 70% is very good while above 80% is excellent. Based on these assertions from renowned scholars, 86% response rate was sufficient for the study.

4.2. Demographic Characteristics

The section presents the demographic characteristics in terms of age, education, years of operation and size of the organization. The data is analyzed using percentages and presented using pie charts.

4.2.1. Age of the Respondents

The respondents were asked to indicate their age. Majority of the respondents who were 49% indicated that their age was between 35-44 years; 31% indicated that their age ranged from 25-34 years, 12% indicated that they were between 45- 54 years while only 8% were 55 years and above. These results show that middle age residents in Nakuru Central Business District are highly involved in business.

4.2.2 Education Level

From the findings as shown in Fig 5, majority of the respondents who were 53% indicated that they were undergraduates, 33% were diploma holders, 10% were postgraduates while only 4% were PhD. Based on the level of education, it can be deduced that the respondents were in a position to comprehend the survey objectives and give reliable responses. The inference from these results is that most of the entrepreneurs in Nakuru CBD are highly educated.

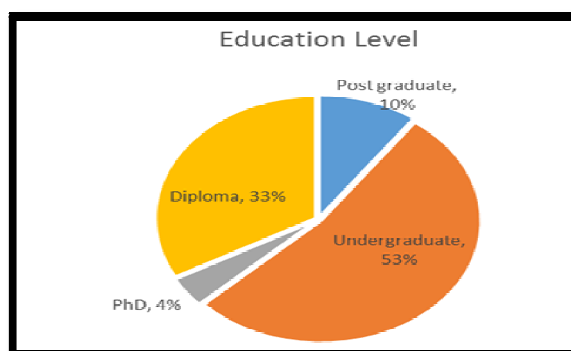


Figure 2: Education Level

4.2.3 Years of Operation

The respondents were also asked to indicate the years their enterprises have been in operation. Majority of the respondents who were 55% indicated that their enterprises have been in operation for 6-10 years, 27% indicated that their enterprises have been in operation for 11-15 years, 10% for a period of 1-5 years, 4% for 16-20 years and a further 4% indicated that their enterprises have been in operation for 21 years and above. This is shown in Figure 2

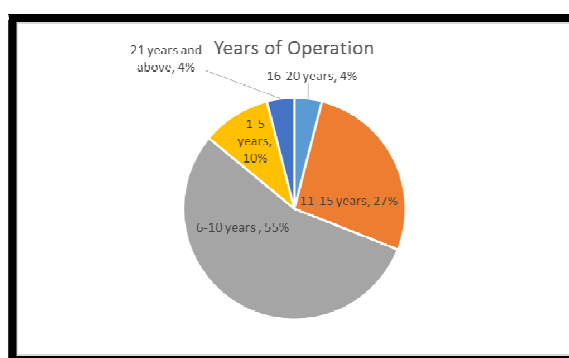


Figure 3: Years of Operation

4.2.4. Size of Organization

The respondents were asked to indicate the size of their enterprises in relation to the number of employees. As shown in figure 4.4, Majority of the respondents who were 51% indicated that their enterprises had 1-5 employees, 31% indicated that their enterprises had 6-10 employees, 12% had their enterprises with 11-15 employees, 16% had 16-20 employees while only 2% had above 20 employees. This showed that most of the businesses in Nakuru Central Business District are small businesses.

4.3. Descriptive Analysis

The section presents descriptive analysis on study variables including Cost leadership strategy, product differentiation strategy, focus strategy and performance of SMEs.

4.3.1. Descriptive Results on Cost Leadership Strategy

The first objective of the study was to determine the influence of cost leadership on the performance of SMEs in Nakuru Central Business District. A five point Likert type scale (5 = strongly agree, 4 = agree, 3 = Neutral, 2 = disagree and 1 = strongly disagree) was used. For the purposes of interpretation of the study results, 5 and 4 (strongly agree and agree) were grouped together as agree, 2 and 1 (disagree and strongly disagree) were grouped as disagree while 3 was neutral.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Standard Deviation
Our organization achieve(s) customer satisfaction and loyalty by reducing the cost of product or services	2.00%	6.10%	4.10%	71.40 %	16.30%	3.94	.80
The organization lowers the cost of production when the demand is high	6.10%	4.10%	4.10%	20.40 %	65.30%	4.35	1.15
The organization reduces the cost of products and services when targeting customer from low	2.00%	2.00%	4.10%	22.40 %	69.40%	4.55	.84

economic class							
Our business enjoys cost advantages due to supplier loyalty.	2.00%	4.10%	4.10%	69.40%	20.40%	4.02	.78
Our business use technology to automate processes hence reduce cost	2.00%	6.10%	10.20%	67.30%	14.30%	3.86	.82
Average						4.14	.878

Table 5: Cost Leadership Strategies

From the findings and as shown in Table 5, majority of the respondents who were 88.70% agreed with the statement that their organizations achieve(s) customer satisfaction and loyalty by reducing the cost of product or services. The findings also revealed that majority of the respondents who were 85.70% agreed with the statement that their organization lowers the cost of production when demand is high. In addition, the results revealed that majority of the respondents who were 91.80% agreed with the statement that their organization reduces the cost of products and services when targeting customer from low economic class. Further, the results showed that majority of the respondents who were 89.80% agreed with the statement that their business enjoys cost advantages due to supplier loyalty. The results also showed that majority of the respondents who were 81.60% agreed with the statement that their business use technology to automate processes hence reduce cost. On a five point scale, the average mean of the responses was 4.14 which means that majority of the respondents were agreeing with most of the statements; however the answers were varied as shown by a standard deviation of 0.878.

4.3.2. Descriptive Results on Performance of SMEs

Performance of SMEs was the dependent variable for the study. The respondents were asked to indicate their level of agreement with the corresponding statements. A Likert type scale of 5 to 1 (5 = strongly agree, 4 = agree, 3 = Neutral, 2 = disagree and 1 = strongly disagree) was used. For the purposes of interpretation of the study results, 5 and 4 (strongly agree and agree) were grouped together as agree, 2 and 1 (disagree and strongly disagree) were grouped as disagree while 3 was neutral.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Standard Deviation
Our organization has been making significant profits	4.08%	4.08%	4.08%	8.16%	79.59%	4.55	1.04
The number of employees in our organization has been increasing	2.04%	4.08%	2.04%	69.39%	22.45%	4.06	.77
Our customers have been experiencing satisfaction from our products and services	2.04%	2.04%	2.04%	8.16%	85.71%	4.73	.78
Our organization has expanded its coverage due to increased demand for products	2.04%	4.08%	4.08%	75.51%	14.29%	3.96	.73
Our organization has managed to diversify its activities	4.08%	6.12%	2.04%	14.29%	73.47%	4.47	1.08
Average						4.35	0.88

Table 6: Performance of SMEs

From the results presented in Table 6, 87.75% of the respondents agreed with the statement that their organization has been making significant profits. The findings also revealed that 91.84% of the respondents agreed with the statement that the number of employees in their organization has been increasing. Further, majority of the respondents who were 93.87% agreed with the statement that their customers have been experiencing satisfaction from their products and services. Also, majority of the respondents who were 89.80% agreed with the statement that their organization has expanded its coverage due to increased demand for products. The results further revealed that 87.76% of the respondents agreed with the statement that their organization has managed to diversify its activities. On a five point scale, the average mean of the responses was 4.35 which means that majority of the respondents were agreeing with most of the statements; however the answers were varied as shown by a standard deviation of 0.88. On the same, the

respondents were asked to indicate their average monthly sales for the last one year. Majority of the respondents indicated that it was between ksh 51,000-100,000. The respondents were also asked to indicate the average number of employees per month for the last one year. Majority of the respondents indicated that they had 1-5 employees per month. The respondents were also asked to indicate how frequent they conduct customer satisfaction surveys. Majority of the respondents indicated that they conduct customer surveys semi-annually. The respondents were further asked to rate their customers' satisfaction for the last one year. Majority of the respondents stated that the satisfaction was high.

4.4. Correlation Analysis

The section presents the correlation analysis between the study variables. Bivariate Pearson correlation coefficient was used in the analysis.

4.4.1. Correlation between Cost Leadership Strategy and Performance of SMEs

Table 4.6 presents the results of the correlation analysis. The results indicate that a strong positive and significant relationship exist between cost leadership and performance of SMEs ($r=0.76$, $p=0.001$).

		Performance	Cost Leadership
Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Cost Leadership	Pearson Correlation	.760**	1
	Sig. (2-tailed)	0.001	

Table 7: Correlation between Cost Leadership and Performance of SMEs

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

4.5. Regression Analysis

The study carried out regression analysis to establish the influence of competitive strategies on performance of SMEs. Simple linear regression was used as presented in the preceding subsection.

4.5.1. Effect of Cost Leadership Strategy on Performance of SMEs

The results in Table 8 present the fitness of model of regression model used in explaining the study phenomena.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.70	0.498	0.481	0.45099

Table 8: Model Fitness for Cost Leadership

Cost leadership was found to be a satisfactory variable in performance of SMEs. This was supported by coefficient of determination also known as the R square of 49.8%. This meant that Cost leadership strategy explain 48.9% of the variations in the dependent variable which was performance of SMEs. The results further meant that the model applied to link the relationship of the variables was satisfactory. Significance the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant. Table 4.10 provided the results on the analysis of the variance (ANOVA).

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.918	1	1.918	42.209	.001 ^b
	Residual	7.143	47	.152		
	Total	9.061	48			

Table 9: ANOVA for Cost Leadership

The analysis indicated that the model was statistically significant. Further, the results imply that the independent variable was a good predictor of SMEs performance. This was supported by an F statistic of 42.209 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level. The research therefore rejects the null hypothesis that cost leadership strategy has no significant influence on the performance of SMEs in Nakuru Central Business District.

The significant effect of cost leadership on performance of SMEs implies that improvement in cost management enhances the performance of SMEs in Nakuru Central Business District. The finding is in agreement with study by Lahtinen and Toppinen (2006) that showed that the cost-leadership pointers describe well about short-term performances in finance than creation of value added, which got fondness on longer-term performances and revenue progression in the future. In addition, Valipour and Birjandi (2012) showed that if a firm's approach is biased towards the strategy of cost leadership, with upsurge in financial advantage and Dividend payments; the performance would eventually increase.

	β	Std. Error	t	Sig.
(Constant)	0.425	0.119	8.401	0.000
Cost Leadership	0.464	0.093	4.992	0.001

Table 10: Regression Coefficients for Cost Leadership

Regression analysis showed that there is a positive and significant relationship between Cost Leadership and SMEs performance ($\beta=0.464$, $p=0.001$). This implies that a unit increase in cost leadership would lead to improvement in SME performance by 0.464 units.

Thus, the optimal model for the study is;

$$Y = 0.425 + 0.464 X_1$$

Where

Y= SME performance

X₁= Cost leadership

4.6. Summary of Hypothesis Testing

Results in Table 11 presents the summary of hypotheses test performed and decision making regarding each hypothesis. The hypotheses were tested based on p value in the analysis of variance

Hypotheses	P- value	Level of Significance	Decision
H ₀₁ : Cost leadership strategy has no significant effect on the performance of SMEs in Nakuru Central Business District.	0.001	0.05	Since P-value is < level of significance reject null hypothesis

Table 11: Summary of Hypotheses Tests

4.7. Chapter Summary

The chapter has covered data analysis and discussion. The data was analyzed using descriptive statistics, Pearson correlation and regression analysis. The findings were presented using tables and pie charts.

5. Findings & Conclusions

The chapter presents the summary of the findings from the analysis, the conclusions; the recommendations and suggestions for further research were articulated. This was done in line with the objectives and hypotheses of the study.

5.1. Summary of Findings

This section provided a summary of the findings from the analysis. This was done in line with the objectives of the study. The number of questionnaires that were administered were 57. A total of 49 questionnaires were properly filled and returned. This represented an overall successful response rate of 86%. Majority of the respondents who were 49% indicated that their age was between 35-44 years; 31% indicated that their age ranged from 25-34 years, 12% indicated that they were between 45- 54 years while only 8% were 55 years and above. Majority of the respondents who were 53% indicated that they were undergraduates, 33% were diploma holders, 10% were postgraduates while only 4% were PhD. Majority of the respondents who were 55% indicated that their enterprises have been in operation for 6-10 years, 27% indicated that their enterprises have been in operation for 11-15 years, 10% for a period of 1-5 years, 4 % for 16-20 years and a further 4% indicated that their enterprises have been in operation for 21 years and above.

5.1.1. Summary on Cost Leadership on the Performance

The first objective of the study was to determine the effect of cost leadership on the performance of SMEs in Nakuru Central Business District town. The findings revealed that the respondents agreed that their organizations achieve(s) customer satisfaction and loyalty by reducing the cost of product or services. Further, findings also revealed that the respondents agreed that their organization lowers the cost of production when demand is high. In addition, the results revealed that the SMEs reduces the cost of products and services when targeting customer from low economic class. Further, the results showed that the SMEs enjoy cost advantages due to supplier loyalty. The results also showed that majority agreed with the statement that their business use technology to automate processes hence reduce cost.

5.2. Conclusions

The conclusions were based on the summary;

5.2.1. Conclusions on Cost Leadership on the Performance

The study concluded that SMEs create a product or service with a distinguished characteristics compared to those of its competitors. The results also revealed that that the SMEs set a higher price than competitors to justify the high costs

of being unique or different. In addition, it is deduced that the organization balance product benefits and product cost. Further, it can be concluded that their organization concentrate on quality products and services to target high economic class. On the same objective, the study concludes that the respondents agreed with the statement that their organizations repackaged their products. The correlation analysis results indicate that a strong positive and significant relationship exist between cost leadership and performance of SMEs ($r=0.76$, $p=0.001$). From the regression results cost leadership was found to be a satisfactory variable in performance of SMEs. This was supported by coefficient of determination also known as the R square of 49.8% thus cost leadership had a positive and significant effect on SMEs performance.

6. Recommendations

Based on the research findings, the study recommended that SMEs should always aims at lowering the cost of production in order to reap optimal profits. However, these products should meet the quality demands in the market.

7. Suggestions for Further Studies

The study sought to determine the effect of generic strategies on performances of small and medium enterprises within Nakuru Central Business District, Kenya. This study, therefore, focused on Nakuru Central Business District only, thus area for further studies could consider other Counties for the purpose of making a comparison of the findings with those of the current study. In addition, the study examined the generic strategies and their effect on SME performance, thus other studies could consider competitive strategies such as innovations and their influence on business performance.

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