

# A Generic Competitive Business Strategies Typology for Micro-Enterprises

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## Abstract

The important role of the micro enterprises (ME) sector in generating growth, creating jobs and reducing poverty, especially in developing countries is widely acknowledged. Literature on competitive business strategy typology development and validation, however, reveals a significant focus on small, medium and large enterprises, with virtual absence of any discourse on MEs. Although several competitive business strategies (CBS) typologies can be found in the literature, they have mainly been developed from and validated on medium to large enterprise data. These typologies, therefore, may not be fully applicable to MEs. The new typology of generic competitive business strategies for MEs described in this paper is built on two dimensions of *Collaboration* and *Competency*, yielding four generic types, representing four broad types of strategic groups better suited than current models, in providing avenues for MEs seeking competitive advantage. The new typology provides a concise model relevant to MEs, providing a structured set of consistent and well understood guidelines for choice of adaptation by owner/managers who are typically involved, whether formally or informally, in an incremental process of strategic formulation and implementation.

**Keywords:** Generic Strategy Typology, Informal Sector, Micro Enterprises, Competitive Advantage

## 1.0 Introduction

MEs face a wide array of challenges in both developing and developed economies. These include lack of access to markets, information on and access to finance, low ability to acquire necessary technical and managerial skills, as well as limited access to technology (Stevenson & St-Onge, 2006). In developing countries, especially in the informal sector, these challenges are further compounded by low levels of education of the entrepreneurs; lack of managerial, marketing and production skills; use of rudimentary technology; low-skilled work-base; lack of access to credit; very low purchasing power of their consumers/clients; and regulatory constraints emanating from difficulties of obtaining legal status (Stevenson & St-Onge, 2005b).

The so-called 'informal sector' common in developing countries, mainly consists of MEs and therefore is directly relevant to this study. The informal sector may be defined as unregistered production units, or micro-enterprises that are typically owned by one individual or a household (Roy & Wheeler, 2006). According to the International Labour Organization (ILO), enterprises in the informal sector 'typically operate at a low level of organization, with little or no division between labour and capital, and on a small scale.' (ILO 2000). The Kenya Government (KNBS, 2010) defines the sector to 'cover all small-scale activities that are semi-organized, unregulated, and use low and simple technologies.' (p. 78). The informal sector has been recognized as crucial to the national economies of developing countries. The World Bank estimates that the informal sector accounts for between one third and three quarters of the total employment in developing countries (Webster & Fidler, 1996). In Kenya, for example, informal sector employment was estimated at 80% of total recorded employment in 2009 (KNBS, 2010, p. 69).

What strategies, therefore, can MEs employ to improve their business performance? How can the strategies be distilled in a manner readily understandable and transferrable to ME owners? These are some of the questions this study sought to address through the development of a generic competitive business strategies (CBS) typology directly relevant to MEs.

## 2.0 Statement of the Problem

Porter (1980) and Porter-based Competitive Business Strategies (CBS) typologies dominate the strategic

management literature. Despite their popularity, they have mainly been developed for, and validated on medium to large firms. For MEs, however, these typologies may have limited application. As argued by Wright (1987), 'choices of generic strategies have limitation boundaries in terms of size of the firm and its access to resources, as well as industry and competitive analyses....large firms in an industry with greater access to resources may primarily compete with the cost leadership and differentiation strategies. And the smaller firms can only viably compete with the focus strategy.' (p. 93).

A study by Ogot and Mungai (2012) on micro-enterprise furniture manufacturers in Kenya found that with restriction on MEs to only the focus dimension in Porter's model (as MEs cannot become industry leaders from either a differentiation or a low cost perspective due to their very small size), strategic group membership in focus differentiation and focus low cost were largely supported. However, Porter's model was not supported in relation to business performance. Hypotheses supporting better business performance for MEs pursuing pure or mixed strategies over those pursuing none were not supported. In their current form, therefore, these models may be too limiting and may not adequately provide strategy dimensions capturing the needs of MEs.

Typical competitive business methods, activities and strategies currently employed by MEs mainly take on the form of participation in clusters; value chain approaches (also know as forward and backward linkages); horizontal networking through formal and informal group formation with similar enterprises; and membership in producer organizations and associations. The approaches, however, are scattered in the academic, governmental and international organization literature, making it difficult for either the practitioner or researcher to benefit from a simple framework of strategic choice, similar to those available for medium and large enterprises. How can the performance of MEs be improved? One approach is by clearly articulating a generic CBS typology directly applicable to them, that can then be translated into appropriate interventions in the sector. This study therefore departs from previous studies in that it seeks to develop a generic CBS typology specifically tailored for MEs.

### **3.0 A Review of Competitive Business Activities and Methods Employed by MEs**

From the literature, competitive business strategies and methods employed by MEs are quite diverse. Two general approaches, however, dominate: value chain approaches, and horizontal linkages and networks. ME participation in value chains involves vertical (forward and backward) linkages, typically with larger firms, and often in the form of sub-contracts, franchising, licensing and supplier relationships. Horizontal linkages, on the other hand, are typically in the form of formal and informal networks with firms of similar size, either directly or through umbrella organizations and associations. Other related competitive business approaches, for example clustering, combine both vertical and horizontal linkages between firms who are in close proximity to one another. A brief discussion of each follows.

#### *3.1 Value Chain Approaches*

A value chain involves the activities needed to turn raw materials into finished products ready for sale. Each activity 'adds value' towards the final product (Gereffi, 1999; UNIDO, 2002). MEs participate in forward linkages in value chains mainly through subcontracting. Other methods include franchising, agency arrangements, and licensing. Subcontracting can be viewed as an 'arms length' relationship between a larger enterprise (buyer) and a smaller one (producer). Subcontracts are durable, that is, they are not one-off in nature, as would be the purchase of ready-made products and widely available services. Subcontracting can reduce the capacity building period for MEs to come up with the desired levels of product quality and design, the ability to meet stated delivery times, and for ongoing innovation and differentiation. Within these arrangements, larger enterprises can often serve as a valuable source of capital, technology transfer, and quality collateral in the form of secure production contracts (Wattanapruttipaisan, 2002).

MEs backward linkages in the value chain are normally with larger firms from which inputs, technology transfer, and training can be obtained. For example, in Kenya, small-holder farmers are able to move away from rain-fed agriculture to simple greenhouse drip irrigation systems with kits supplied by Amiran Kenya Ltd. The company provides 'complete kit[s] containing a simple greenhouse drip irrigation system, water tank fertilizer, seeds, agro support and training.' (Kabukuru, 2011, p. 30). Farmers have been known to receive up to 200% returns from use

of the kits.

MEs generally have little power in buyer-driven (controlled) chains, for example in garments, commodity foods, and agency arrangements. There are a few exceptions however. For example, Starbucks Coffee in the US leads a buyer-driven chain where the products value is linked to its quality, something controlled by the producers who are mainly small-holder speciality coffee farmers in Africa and Latin America. The success of this arrangement lies in the strong inter-firm cooperation between the lead-buyer (Starbucks) and the producer groups (the small holder farmers) with more of the post-harvest and quality control functions being passed to the farmers groups (Ponte, 2002). It is worth noting that producers have more power in value chains where their products are characterized by a high degree of labour specialization and product differentiation (Kula et al., 2005).

### 3.2 Horizontal Linkage and Networking Approaches

One of the main approaches to increased business performance of MEs is through the creation of collective efficiencies via group formation (Berry, Rodriguez & Sandee, 2002, cited in Kula et al., 2005). Presence of strong producers groups and associations for quality driven value chains, allows product differentiation and branding strategies at the producer level as they are able to control for quality, and carry out branding activities on behalf of members (Knorrninga & Schmitz, 2000). Horizontal cooperation or linkages between similar size enterprises performing like functions in a sector can result in collective efficiencies from reduced transaction costs, faster innovation and problem solving, as well as increased market access via economies of scale (Bazan & Schmitz, 1997, cited in Kula et al., 2005). Participation in networks is particular in important for MEs who often have limited resources and limited market presence (Barnir and Smith 2002).

The aspect of networks and linkages is grounded on social network theory and specifically the theoretical framework of social embeddedness that posits that economic activity can only be analyzed by also considering the social context in which it occurs. As further elaborated upon by Barnir and Smith (2002), 'firm behaviour is, in general, and inter-firm cooperation in particular, is affected by the context in which the strategic choices are made. Important elements of this context are the personal and social networks of senior executives.' (p. 220). In the case of MEs, the owners tend to be also be the managers or the equivalent of 'senior executives' in larger enterprises. The social networks they form, therefore, are potential sources of competitive advantage to the extent that they may be used to identify opportunities, obtain resources, facilitate utilization of existing resources, etc. We use the definition by Bart (cited in Barnir and Smith 2002) of social networks as one's relations and contacts with others. The use of social network theory for this study is to the extent that those social networks result in collaborations between enterprises. Our focus is therefore not on social network theory *per se*, but the business outcomes from the networks.

For example, In a study amongst women micro-entrepreneurs in Botswana, Nsteane (2004) found use of networks as a main strategy for achieving success. The women would often assess and help members whose businesses were experiencing problems. In addition, they shared business ideas and profits, as well as teaching and learning from others. Makombe (2006) in a study of women food-processing micro entrepreneurs in Tanzania found significant benefits of membership in their producer association, the Tanzania Food Processors Association. The women were no longer isolated in their micro enterprises, and had a forum within which to exchange ideas and establish networks.

Horizontal networks are also used to provide informal avenues to financing. MEs typically experience difficulty in accessing regular sources of financing. Many owners, therefore, often participate in variants of rotating savings and credit associations (ROSCAs). ROSCAs have their roots in mutual guarantee systems, typical of most African and Asian societies. Generally ROSCAs have between 5-10 members. The associations hold regular meetings where each member contributes a fixed amount, with each member getting a turn as the recipient. Interest is not normally charged for the loan or paid on the interest, unless the association uses its mutual strength to 'top-up' its fund from a micro-finance institution. (Stevenson & St-Onge, 2005a). It is worth noting that entrepreneurs who participate in these 'merry-go-round' networks also leverage group membership to share ideas as well as exchange business experience and know-how.

Although not restricted to businesses only, Savings and Credit Cooperative Societies (SACCOs) provide another avenue to financing. SACCOs' main objective is to provide group-based members access to a reliable savings system as well as affordable credit. In Kenya, for example, SACCOs are the largest source of finance to MEs (Coetzee, Kabbuchi & Minjama cited in Stevenson & St-Onge, 2005a).

### 3.3 Participation in Clusters

Porter (1998) defined clusters as, 'geographic concentrations of interconnected companies and institutions, specialized suppliers, service providers, firms in related industries and associated institutions ... in a particular fields that compete and also cooperate.' (p. 78). Clusters may also be defined as 'geographic concentrations of horizontally and vertically linked firms, suppliers, service providers, associated institutions operating in a single field.' (Kula et al., 2005, pp. 13-14). Clustering can increase industrial capacity by increasing market access, fostering communication and information sharing, enhancing technology spillovers, increasing efficiencies, and contributing to the development of support institutions (McCormick, 1999). Further, clusters can help small firms overcome challenges normally associated with size, promote technological development and thereby strengthen their capability to effectively compete in both local and international markets.

Formal cluster formation, especially for MEs, normally requires interventions from government and international organizations, especially in developing countries, and mainly in the areas of governance and financing. Further, successful cluster formation and management requires cooperation amongst the various ministries and implementing agencies to coordinate the MEs support, assist in the development of cluster support structures, as well as provide leadership and professional competence (Tambunan, 2005). In urban areas, however, clustering of MEs often occurs naturally and informally, especially in the areas of manufacturing (wood and metal products), plant nurseries, retail trade in clothing, etc. In these informal clusters, new enterprises in similar sectors set up shop where others have previously established themselves, hoping to take advantage of an established customer base. Although not formally established, these informal clusters may also reap some of the benefits as those found in formal clusters.

Moyi & Njiraini (2005) observed that MEs in industrial clusters tend to specialize in performing particular processes or stages in production, thus allowing them to engage in relative complex webs of inter-firm networks that extend beyond market transactions. The larger the networks, the more external economies accrue to the enterprises, thereby overcoming some of the shortcomings arising from their small size. Similarly, Schmitz & Nadiv (1999) noted that clustering provides even the poorest and most vulnerable cottage industry producers, reduced 'search and reach' costs, inter-firm collaboration, and the opportunity to become more competitive in wider markets proximity. There are numerous studies illustrating the positive impact participation in clusters can have on MEs. Ayele et al. (2010) in a study on handloom weaver clusters in Ethiopia, found use of interconnected trade linkages to ease working capital constraints, in areas where formal financial institutions were absent. In addition, the clustering enabled the MEs with limited capital to leverage on shared workspaces and division of labour. In a study of clusters in the tourism sector, Greffe (1994) found that cooperation through value-added networks of product and service delivery to enhancing tourist satisfaction, for example by referring customers to each other, rather than compete.

A mosaic of different approaches employed by MEs to increase business competitiveness in order to improve their business performance has been presented in this section. A synthesis of the methods and activities contained herein formed the basis for the development of a new generic CBS typology for MEs, as presented in the following section.

### 4.0 Generic Competitive Business Strategy Typologies

Over the years, numerous definitions for *strategy* have been advocated in the literature. Chandler (1962) defines strategy as 'the determination of the basic long-term goals and objectives of an enterprise, the adoption of courses of action, and the allocation of resources necessary for carrying out the goals.' (p. 13) Strategy may also be defined as the study of the sources (and creation) of efficiencies that make firms successful (Camerer, 1991). Further, Porter (1996) argues that strategy is creating fit among a company's activities. The success of a strategy depends on doing many things well, and integrating among them. If there is no fit among activities, there is no distinctive strategy and little sustainability.

A broad categorization of strategic choice, generally applicable regardless of industry, organization type or size is referred to as a generic strategy (Herbert & Deresky 1987). Numerous generic strategy typologies are described in the literature including those that focus on structural aspects of the firm (Burns and Stalker 1961), life-cycle theories (Chandler 1962, Herbert & Deresky 1987); portfolio models (Hofer & Schendel 1978); product market evolution (Glueck 1980), and competitive business strategies (Porter 1980, 1985; Wright, 1987; Murray, 1988; Kim, Nam & Stimpert, 2004; Spanos, Zaralis & Lioukas, 2004; Gopalakrishna & Subramanian, 2001; Pertusa-Ortega, Claver-Cortes & Molina-Azorin, 2007). The importance of generic strategic typologies in the running of firms is emphasized by Herbert & Deresky (1987) who state that,

'The utility of generic strategies takes several forms ... they highlight the essential features of separate, situation-specific strategies, capturing their major commonalities in such ways that they facilitate understanding broad strategic patterns .... at the business level such categorization reduces the myriad variables that demand managerial 'art' to a manageable set of factors with high communality.' (p. 136).

The focus of this study is on the development of a generic CBS to gain competitive advantage. Of the numerous activity-based theories, the generic CBS typologies of, or based-on Porter (1980, 1985) dominate the strategic management literature. Porter settled on three key generic strategies that a business can adopt: cost leadership, differentiation and market focus. The three strategies can be characterized along two dimensions of competency (cost or differentiation) and market scope (focused or broad). The cost leadership strategy aims to have the lowest price in the target market. To achieve this, while remaining competitive, companies following this strategy must be able to operate at costs lower than their competitors. Low costs can be realized via high asset turnover, low operating costs, and control over the supply chain. Low cost strategies are aimed at achieving low margins and high volumes.

Differentiation strategies seek to earn above average returns by creating brand loyalty. The latter can serve as a strong entry barrier to competitors. These strategies are most applicable to market segments that are competitive, not price sensitive, and have specific needs that are under-served. The firm therefore must have unique and hard-to-copy resources and capabilities to meet the customer requirements. Differentiation strategies tend to achieve high margins and low volumes. Finally, focus strategies target segments of the market whether a specific consumer group, product line or geographic area. Firms adopting this approach focus on either a low cost position or a differentiation strategy within its target market. Porter (1985) stated that the choice of a focused or broad strategy is independent of the selection of differentiation or cost leadership. A firm, therefore, could take a focused or broad approach to either differentiation or cost leadership (Murray 1988). Porter (1980) argues that a firm should only pursue one of the strategy areas at a time to avoid loss of organizational focus. Differentiation, for example, will increase costs, thereby contradicting the low cost philosophy, while the standardization principles in the low cost strategy will not permit differentiation. Porter's typology is therefore usually characterized as offering discrete (mutually exclusive) alternatives (Wright, 1987; Hill, 1988).

The literature also has critics of Porter's typology, especially the assertion that the generic strategies are mutually exclusive. Studies that support 'hybrid', 'mixed', 'integrated' or 'combination' strategies include Beal & Yasai-Ardekani (2000), Kim, Nam & Stimpert (2004), Spanos, Zaralis & Lioukas (2004), Gopalakrishna & Subramanian (2001), and Proff (2000), all arguing that the pursuit of a single generic strategy may lead to lower performance. Others have challenged Porter's 'stuck in the middle' hypothesis. This refers to firms that engage in each of the generic strategies but fails to achieve any. It is often a result of an enterprise lacking clarity in their strategic choices, thus not placing a distinct emphasis on any of the dimensions (Pertusa-Ortega et al., 2009). They go on to emphasize that those firms pursuing hybrid strategies have a multiple emphasis, while 'stuck in the middle' emphasize none.

A common thread of all these studies on Porter's CBS typologies is that they have mainly been developed from, and validated on data obtained from medium and large firms. These typologies may not therefore be directly applicable to MEs. For example, the basic premise as presented by Porter (1980) is that an enterprise can make a choice from the three generic strategies on whether to apply one on its own (pure strategies) or more than one in combination



(mixed strategies). Miller (1986, 1987) segregated differentiation strategies into two: those based on innovation, and those based on operational and marketing efficiencies. Those based on innovation can create dynamic, unpredictable market environments that may give the innovator substantial advantage over their competitors (Koo, Koh & Nam, 2004).

Market focus strategies, on the other hand, are generally applicable to smaller firms (who have few resources) allowing them to compete with larger firms based on their strategic strengths (Wright, 1987). In other words, MEs can *only* adopt a focus strategy within the Porter framework (Rugman & Verbeke 1987). In its current form, therefore, Porter's typology is too limiting and does not adequately provide alternative strategy dimensions capturing the needs of MEs that may be used in conjunction with focus strategies. There is therefore a strong need to develop generic CBS typologies tailored to the needs, and being able to capture the specific characteristics of MEs.

### 5.0 Generic Strategy Typology Development

Campbell-Hunt (2000) in a descriptive analysis of Porter's CBS, presented four approaches that may be used to describe, but also develop generic strategy typologies. Each of the approaches are briefly presented next, followed by a justification for the choice used for this study.

#### 5.1 The Taxonomic Approach.

A taxonomy can be defined as a 'hierarchical ordered set of classifications, within which all designs can be allocated to a unique position, depending on the particular set of strategic elements involved' (Campbell-Hunt, 2000, p. 129). A development process following this approach seeks to condense a large number of possible strategic designs into a smaller set of hierarchical allocation rules to which a particular competitive strategy may be classified within the hierarchy (Doty & Glick, 1984). Inspired by biological taxonomy, designs developed following this approach require that the classifications be internally homogenous, mutually exclusive, and collectively exhaustive.

#### 5.2 The Empiricist Approach.

Development of typologies based on this approach follows a similar argument as the taxonomic approach in that a large number of competitive strategy designs can be reduced to a smaller number of classes (Miller, 1981; Miller, 1992b). This is achieved through empirically derived clusters that are associated together in hierarchies of similarity. This approach, however, is not as restrictive as the taxonomic approach in that it accepts that not all designs can be classified; it does not bar the emergence of hybrid designs; and a precise set of allocation rules is no longer used--instead a balance is established between having a large number of homogenous classes and a smaller, and possibly less extensive classification (Campbell-Hunt, 2000).

#### 5.3 The Nominalist Approach.

This approach views generic typologies as ideal 'types' presented within a minimalist classification system. Due to the latter, 'correspondence between the real designs and the ideal types will be both imperfect and variable, so that classifications will be neither fully homogenous nor mutually exclusive.' (Campbell-Hunt, 2000, p. 130). This approach only seeks to describe a small number of ideal types based on a nominal set of competitive-strategy design aspects, based on their perceived importance.

#### 5.4 The Dimensional Definition Approach.

This approach is fundamentally different from the other three in that it does not define classes of competitive-strategy designs. Instead it is based on defining independent dimensions, devoid of rank, of a multi-variate space within which most of the variations of competitive-strategy designs are captured. As stated by Campbell-Hunt (2000), 'because all designs are positioned relative to [each other]...., the presence of one emphasis does not exclude the other, and unrestricted scope is allowed to mixed-emphasis designs.' (p.131). It is important to emphasize that, like in other dimensional-based typologies, the strategic dimensions represent classes, and are not dimensions in the statistical sense. As stated by Miller (1987), 'they constitute *a priori* combinations of attributes derived from previous theoretical and empirical literature and are designed to reflect particular classes of activities.' (p. 64).

For this study the dimensional definition approach was used. The empiricist approach was found not to be practical due to the acknowledged unavailability of clean data in this sector. Most MEs, especially in developing countries, keep very poor records, if any at all. The empiricist approach relies completely on the availability of reliable, similarly structured data as was previously described. In the development of his CBS typology, however, Porter appears to defend the use of a taxonomical approach. This assessment is based on his arguments that the two strategies of low-cost and differentiation are two alternative, incompatible methods to achieve competitive advantage. As was presented previously, however, this view has been countered in the literature by those who support the strength of using mixed or hybrid strategies.

Following that line of reasoning, development of CBS typologies is best done for MEs pursuing a (Pertusa-Ortega, et al. 2009) 'dimensional approach, according to which generic competitive strategies should not be regarded as two unique strategies but as two dimensions with respect which each firm must choose its position.' (p. 510). They go on to state that, 'Porter's framework could be improved by viewing it as providing two important dimensions of strategic positioning (cost and differentiation) rather than as two distinct strategies.' (p. 510). A representative sample of researchers who have used the dimensional approach for CBS typology development include Hofer & Schendel (1978), Porter (1980), Beal & Yasai-Ardekani (2000), Spanos, Zaralis and Lioukas (2004) and Pertusa-Ortega et al. (2009).

A four step approach to model development was therefore adopted: (1) An extensive review of the literature was carried out to extract and document the competitive business methods and activities employed by MEs; (2) the extracted methods are qualitatively clustered into logical strategic groupings; (3) the groupings were analyzed to determine sets of potential dimensional definitions; and (4) a final set of dimensional definitions that define the CBS typology is established, directly informed from the ME literature.

#### **6.0 A Generic Competitive Business Strategy Typology for MEs**

A close inspection of nearly all the approaches that have been shown to significantly improve the competitive advantage, and therefore performance of MEs, is that they all emphasize the importance of the ME collaborating with other enterprises. Due to their small size, the literature suggests that through collaborating with their peers and/or with larger enterprises MEs are able to accrue significant benefits, than those that may seek to go it alone. Collaboration therefore became a key construct in the development of the a CBS typology for MEs.

Following the four step approach presented in Section 5, a new two-dimensional generic CBS Typology for MEs is proposed and presented in Figure 1. It is based on clustering of the synthesized competitive business methods and activities used by MEs, as previously presented, thereby providing the typology with strong theoretical and empirical underpinnings. The typology is anchored on two dimensions *Collaboration* and *Competency*. The latter dimension has been retained from Porter's (1980) typology, while the former is new. An ME can therefore employ one or more of four key generic business strategies: Peer Differentiation, Peer Low Cost, Mentor Differentiation, and Mentor Low Cost. The four strategies are characterized along the two dimensions of Collaboration (peer or mentor), and Competency (cost or differentiation).

Although some researchers have advocated that the more strategic dimensions emphasized the better (see for example, Pertusa-Ortega et al. 2009), the two-dimensional approach as adopted by Porter (1980) is employed due to its simplicity and ease of understanding, especially considering the target ME audience. The peer strategies are based on activities carried out by MEs within networks and linkages with other MEs to achieve competitive advantage either by differentiation, or low cost. Similarly, MEs may seek to achieve the same through relationships with larger enterprises and organizations (forward and backward linkages, membership in organizations and associations, etc) who play both a business partner, and a mentor role to the ME. Those pursuing this avenue are said to be adopting the mentor strategies. A brief description of each follows.

The Peer Differentiation Strategies seek to leverage on peer relationships to set their products and services apart from others in the localized market. This may be realized through, working within groups to maintain quality control, developing new products together, and group lending/borrowing to finance differentiations initiatives, amongst

others. The Peer Low Cost Strategies aim to reduce production and operating costs, and thereby selling costs through peer relationships. Example activities include lowering of the cost of capital through participation in informal financing groups; sharing of expensive equipment or workplaces that allow reduction in production efficiencies and costs; collective purchasing of raw materials to lower unit costs, etc.

The Mentor Differentiation Strategies are pursued mainly through forward and backward linkages with larger enterprises, as well as membership and participation in umbrella organizations and associations. Benefits accruing to the MEs through these relationships include technology transfer promoting differentiation, branding of products or services, increased awareness and publicity of products and services through trade shows and fairs, amongst others. Finally, the Mentor Low Cost Strategies are also mainly pursued through forward and backward linkages with larger enterprises, as well as membership and participation in umbrella organizations and associations. For these generic strategies, however, the aim is to accrue benefits that lower costs of production and operation, thereby providing the MEs with a low cost advantage, vis-a-vis their peers. This is mainly achieved through technology transfer, training, reduction in cost of capital, access to new markets.

As is generally accepted in the literature for Porter and Porter-based CBS typologies, MEs are not restricted to pursuing a single strategy in the new typology. They may adopt more than one in combination or develop hybrids in order to meet their specific circumstance. The competitive methods and activities the author believes most closely aligned to each of the proposed four generic strategies are presented in Table 1. These are based on the synthesized literature on MEs. It is worth noting that several activities are cross-cutting along the Collaboration dimension. They are carried out as part of either peer-based or mentor-based strategies, independent of whether an ME is pursuing a low-cost or differentiation approach. These cross-cutting methods, therefore, appear more than once in Table 1.

## 7.0 Discussion and Conclusion

Studies in the literature suggest that MEs play a significant role in national economies, especially of developing countries. Literature on competitive business strategy typology development and validation reveals a significant focus on medium and large enterprises, with virtual absence of any discourse on MEs. Yet in most developing countries, MEs form the larger proportion of reported employment. Development and validation of a CBS typology for MEs should therefore become an important part of the strategic management research agenda. The literature presented makes a strong case and provides the motivation for this study. Although several CBS typologies exist in the literature, Porter-based CBS typologies have been extensively cited, empirically tested and critiqued in the literature. Porter's generic business strategies provides a simple business strategy concept that incorporates a few critical dimensions, yet has strong theoretical underpinnings (White 1986). Porter's typology is especially useful since it builds on previous research findings, is appropriately broad, but not vague. Porter's model therefore formed the inspiration from which a new typology tailored for MEs, was developed, guided by simplicity and strong theoretical underpinnings.

The new typology of generic competitive business strategies for MEs is built on the two dimensions of Collaboration and Competency, yielding four generic types, representing four broad types of strategic groups. Strategic groups can be developed from multivariate measures of intended or implemented strategies, and provide a framework for empirically demonstrating that strategies differ among firms, and that better strategies lead to better performance. From the literature, it is clear that *Collaboration* is a key ingredient for the success of MEs as they strive to grow and evolve into small and even medium-sized enterprises. Yet Collaboration, as a construct, has been absent from previous CBS typologies. While larger firms may not need to collaborate, the literature seems to suggest that collaboration is essential for MEs to be successful. This view is captured in the proposed typology.

The important role of the ME sector in generating growth, creating jobs and reducing poverty is widely acknowledged. It is hoped that the generic strategies developed in this study will provide a concise model relevant to MEs and serve as a useful tool that may be used to communicate their specific implementation variables. This would allow clarification of the enterprises strategic goals and the means to achieve those goals. Further, the developed typology provides a structured set of consistent and well understood guidelines for choice of adaptation by owner/managers who are typically involved, whether formally or informally, in an incremental process of strategic



formulation and implementation. Future work will seek to provide empirical evidence of the proposed construct validity by demonstrating the ability of multivariate measures of strategic choice to classify MEs into homogenous groups as presented in the new typology, and to empirically test the relationship between strategic group membership within the new typology, and enterprise performance.

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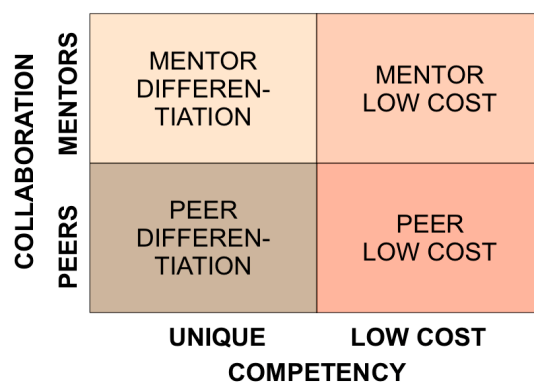


Figure 1: Proposed New Generic CBS Typology for MEs

Table 1: Competitive activities most closely aligned to each of the four generic strategies in the ME CBS typology

Generic Strategy	Competitive Activities
Peer Differentiation	<ul style="list-style-type: none"> <li>• Group development of new products</li> <li>• Quality compliance through producer groups</li> <li>• Group labour specialization</li> <li>• Joint problem solving</li> <li>• Group lending/borrowing</li> </ul>
Peer Low Cost	<ul style="list-style-type: none"> <li>• Group bulk procurement of raw materials</li> <li>• Group Lending/Borrowing</li> <li>• Joint problem solving</li> <li>• Reciprocal business relationships (for example, provision of material support,</li> </ul>

Generic Strategy	Competitive Activities
	buying merchandise from each other) <ul style="list-style-type: none"> <li>• Sharing of workspaces and specialized equipment</li> <li>• Participation in public procurement through group bidding</li> </ul>
Mentor Differentiation	<ol style="list-style-type: none"> <li>i. Branding through mentor organizations</li> <li>ii. Servicing new geographic markets through mentor organizations</li> <li>iii. Technology transfer from forward/backward linkages generating new product development</li> <li>iv. Access finance and/or credit through forward/backward linkages</li> <li>v. Sub-contracting</li> <li>vi. Agency agreements</li> <li>vii. Backward/forward linkages for training</li> <li>viii. Backward linkages for specialized inputs</li> <li>ix. Technology transfer through umbrella organizations (associations) generating new product development</li> <li>x. Publicity, quality control, training and/or exchange of ideas through umbrella organizations (associations)</li> </ol>
Mentor Low Cost	<ul style="list-style-type: none"> <li>• Technology transfer and training to improve production efficiencies from forward/backward linkages</li> <li>• Access to lower cost finance and/or credit through forward/backward linkages</li> <li>• Backward linkages for low-cost inputs</li> <li>• Participation in procurement through sub-contracts</li> <li>• Access to lower cost finance and/or credit membership in umbrella organizations (associations) or cooperatives</li> <li>• Technology transfer and training to improve production efficiencies from umbrella organizations (associations)</li> <li>• Access to lower cost raw materials through organizations (associations) who buy in bulk</li> <li>• Exchange of ideas through umbrella organizations (associations)</li> </ul>

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