Analysis of Organic Growth Strategies on Performance of small and medium sized Enterprises: Case of Thika Sub-County, Kenya

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ABSTRACT

Small and Medium-sized Enterprises (SMEs) play an important economic role in Kenya. The sub-sector contributes to an estimated 20 percent of the GDP and employs 85 percent of the Kenyan workforce. The purpose of the study was to analyze the influence of organic growth strategies on the performance of SMEs in Thika sub-county, Kenya. The study was guided by the Ansoff's Matrix and Penrose's (1959) growth theories and the Balanced Scorecard performance theory by Kaplan & Norton (1992) in the measurement of performance of SMEs. The study was guided by the following null hypothesis: There is no relationship between penetration, market development, product development and diversification strategies on the performance of SMEs in Thika Sub-county. Literature was reviewed on the concept of growth in enterprises, definition of SMEs, organic growth strategies and the concept of performance of enterprises. A conceptual framework was also developed. The organic growth strategies formed the independent variables while the performance of SMEs was the dependent variable. The strategy implementation conditions formed the intervening variable. The central thesis of the study was that organic (internal) growth strategies are core ingredients necessary for spurring growth of SMEs and in turn enhancing their performance. The study was a correlational study. It was located in Thika Sub-County in Kiambu County, Kenya. The study targeted 4805 SMEs within the Sub-County. Proportional stratified random sampling technique was used to sample 36 SMEs. The unit of analysis was the 36 CEOs/ Marketing Managers of the sampled SMEs, who were purposively chosen due to their superior knowledge of the SMEs. Data was collected using Organic Growth Strategies Questionnaire (OGSQ). Quantitative data was coded into a computer sheet that was used to enter data in Statistical Package of Social Science (SPSS) program (version 21.0). Quantitative data will be presented in frequency distribution tables and analyzed using mean, percentage, Pearson-Product correlation coefficient and linear regression. The significance of the results was tested at .05 significance level. Qualitative data was analyzed thematically. The study found out that penetration, market development, product development and diversification strategies positively influenced the performance of SMEs. The four independent variables account for 44.9% of the total variability of performance of SMEs. Penetration and market development strategies added statistically significantly to the prediction of performance of SMEs. The product development and diversification strategies should approached with caution as they are much riskier. The study concluded that SMEs should embrace the organic growth strategies to spur growth of their enterprises. The study recommended that the government should create a Ministry of Micro, Small and Medium Enterprises to fund the implementation of the organic growth strategies developed by SMEs and provide technical support in market research, ideas incubation and capacity building of the CEOs/Owners of the SMEs. Finally, the study recommended that similar studies to be carried in other counties in Kenya. Also, further study should be conducted to analyze the influence of inorganic strategies on performance of SMEs.

Key Words: Organic Growth Strategies, Performance of small and medium sized Enterprises.

1.0 Background Information

The notion of SMEs and entrepreneurship development was introduced into growth and landscape of most economies in the world as early as the late 1940's with the introduction of targeted policies (grants, subsidized credits, special tax treatment among others) and the establishment SME support agencies by government (OECD, 2004). Publicly funded SME agencies were set up in 1948 in Japan, 1953 in USA, 1954 in India, 1966 in Tanzania and 1976 in Turkey (Ayyagari *et al*, 2011). The contribution of small and medium sized enterprises (SMES) to employment, growth and sustainable development is widely acknowledged. SMEs by number, dominate the world business stage. Although, up-to-date data is difficult to obtain, estimates suggest that more

than 95 percent of enterprises across the world are SMEs, accordingly accounting to approximately 60 percent of private sector employment (USAID, 2007). Japan has the highest proportion of SMEs among the industrialized countries, accounting to more than 99 percent of total enterprise (BIS, 2012). India, according to the Ministry of MSMEs, had 13 million SMEs in 2008, equivalent to 80 percent of all the countries businesses (Ghatak, 2010). The contribution of SMEs to economic fundamental varies substantially across countries from 16 percent of GDP in low-income countries to 51 percent of GDP in high-income countries (European Commission, 2012). Recent empirical studies show that SMEs contribute to over 55 percent of GDP and over 65 percent of total employment in high income countries (European Commission, 2013). SMEs account for over 60 percent of GDP and over 70 percent of the total employment in low-income countries while they contribute over 95 percent of the total employment and about 70 percent of the GDP in middle-income countries.

SMEs represent the vast majority of the businesses in USA. They generate USD 4 trillion in annual economic output, 68 million jobs and one-third of all (Kazooba, 2010). This provides approximately 75 percent of all net jobs added to the economy and 99.7 percent of all employees. There are approximately 23.4 million SMEs in USA accounting to 98.7 percent of all firms in US and contribute 41 percent of the total sales (OECD, 2004). The SMEs accounted for more than 98 percent of all enterprises in Europe in 2012 (European Commission, 2012). The commission also estimated that in 2012, SMEs accounted for 67 percent of the total employment and 58 percent of the gross value added; an important component of GDP.

In India, there were 13.5 million MSMEs employing 30 million people in 2008 (Sincar, 2010). Sincar further observed that the MSMEs also contributed approximately 50 percent of industrial production and 45 percent of exports. He also established that the MSMEs sector employs about 42 million persons and produce over 6000 products ranging from traditional to high-tech items. The major export products include ready-made garments, chemicals and pharmaceuticals, engineering foods, processed foods, leather products and marine products. The challenges facing MSMEs in India include problem of skilled manpower, inadequate credit assistance, irregular supply of raw material, absence of organized marketing, lack of machinery and equipment (Kaushal, 2013). Others include absence of adequate infrastructure, competition from large scale units and imported articles, poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence and high number of bogus concerns.

In South Africa, 91 percent of the formal business entities are SMEs (Abor & Quartely, 2010). It is estimated that SMEs growth in South Africa has reached 7 percent growth rate with almost 40,000 new entrants annually. The sector contributes about 40 percent of the GDP. The main sectors include transport, telecommunications, construction and financial services. In order to support the growth of the sector, several institutional arrangements have been put in place. They include Small Enterprise Development Agency, Khula Enterprise Finance, South Africa Microfinance Apex Fund, The DTI incentives and Industrial Development Cooperation and National Empowerment Fund. The value of goods and services generated by SMEs in Uganda in 2004 was USD 1,363,733 million of the total USD 2,360,157 million, thus a contribution of 58 percent (Uganda Bureau of Statistics, 2004). The Bureau also estimated that SMEs employed 2,704,127 people representing 56 percent of employment size. In addition, they were responsible for human resource and entrepreneurial development, poverty alleviation, resource mobilization, business adaptability and sustainability.

Small and Medium-sized Enterprises (SMEs) play a significant economic role in many countries. They are considered as the backbone or engine for economic growth. For instance, Kenya's SMEs sector contributed an estimated 18 percent of GDP in 2011 (Africof, 2012). The sector also employs about 85 percent of the Kenyan workforce that translate to about 7.5 Million Kenyans of the country's total population (Ongolo & Odhiambo, 2013). It is estimated that the sub-sector contributes to about 20 percent of the total GDP (ROK, 2013). Within the US economy, SMEs account for the vast majority of the firms and approximately half the gross domestic product (GDP) generated by the non-agricultural sectors SME principal exports between 1999-2007 were computer and electronic products, machinery and chemicals. SMEs in US tended to concentrate their merchandise exports in high–income destination markets such as Hong Kong, Israel and Switzerland and in labour intensive product categories such as wood products and apparel and accessories. It is estimated that more than 99 percent of all European businesses are in fact, SMEs (European Commission, 2013). The Commission further observed that the SMEs provide 2 out of 3 of the private sector jobs and contribute to more than half of the total value-added created by businesses in EU. In the APEC region, SMEs account for around 90 percent of all businesses and employ as much as 60 percent of the work force (USAID, 2007). At present, however, they generate around 30 percent of exports.

SMEs are widely recognized the world over for their contribution in the social, economic and political development. The importance of the sub-sector is particularly apparent in its ability to provide reasonably priced goals, service, and income, providing job opportunities and acting as supplier of good and service to large

organizations (Kauffman, 2006). It is for the above reasons that there has been a growing interest and concern by the government and development partners for the improved performance and growth of the SMEs (Nyagah, 2013). The government of Kenya has hinged its economic recovery strategy in the sector (ROK, 2005). However the sector continues to face many binding constraints that make it hard to achieve its potential. These constraints include limited access to information and markets, inadequate access to skills and technology, limited access to finances among others (ROK, 2005). The lack of access to credit has also been cited as one of the most important constraint facing SMEs in Kenya (Oketch, 2000). Other studies have identified other constraints, for example, Longnecker, Petty, Moore & Palich (2000) cited lack of planning, improper financing and poor management as other causes of failure of SMEs in Kenya. Others challenges include competition among themselves and from the large enterprises, cheap import, insecurity and poor debt collection strategies (Bowen, Morara & Mureithi, 2009).

1.1 Statement of the Problem

Despite the critical role played by the SMEs in the Kenyan economy, the sector continues to face many challenges. These include unfavorable policy environment, inhibitive legal and regulatory framework, limited access to information, limited access to markets, inadequate access to skills and technology, insecurity of land tenure, poor access to infrastructure, inadequate knowhow and inadequate linkages with larger enterprises, lack of access to credit facilities and corruption (Oketch, 2000; Moyi & Njiraini, 2005; ROK, 2005; Kauffaman, 2006; Kiveu, 2008; Bowen, Morara & Mureithi, 2009; Africog, 2012). Deliberate efforts have been made to address some of these challenges. Policy frameworks have been developed (ROK, Seasonal paper No. 2 of 2005, Micro and Small Enterprises Bill, 2011). The lack of credit facilities have been addressed with establishment of Youth Enterprise Fund (December, 2006), Women Enterprise Fund (August, 2007), UWEZO Fund (September, 2013) among others.

Previous studies in Kenya on SMEs have largely focused on the social, economic and administrative constrains that hinder growth of the SMEs (Mullei & Bokea, 2000). Others have focused on the main sources of formal and informal financing of SMEs and influence of ICT on performance of SMEs (McGeorge et al 2013). However, little has been done on how the organic growth strategies influence the performance of SMEs in Kenya (Kiveu, 2008). The study contended that, if the SMEs utilized their internal resources and employed internal (organic) growth strategies such as penetration, market development, product development and diversification, then their performance could improve. The study therefore aimed at analyzing the influence of organic growth strategies on the performance of SMEs in Thika Sub-County, Kenya.

2.0 LITERATURE REVIEW

2.1 Definition of SMEs

There is no clear definition of Small and Medium-sized Enterprises (SMEs). They are rather identified more by their characteristics than by explicit definition and may therefore vary in different jurisdiction (Africog, 2012). For example, in Britain a small business is that with paid employees totaling less than 200 (European Commission, 2005). In Kenya, a small business is that with 10-49 employees, and a medium business is that with 50-59 employees (Waweru, 2007). A definition by the European Commission (2005) of Small and Medium Enterprises (SMEs), and one which has become widely adapted by researchers uses the number of employees as a direction to distinguish between firms of different sizes, irrespective of the industrial sector in which the firm operates. Three categories are distinguished: a micro-enterprise is a business which employees 0-9 employees, a small enterprise employs 10-99 people while a medium enterprise employs 100-499 (European Commission, 2005). This approach allows the distinction of features of enterprise that vary with degree of smallness such as practice of hiring and firing, pricing strategies, investment strategies, competition, collusion and innovation (El-Mobayed, 2006)

SMEs are those enterprises that employee between 10-99 employees (USAID, 2007). Small enterprises are those employing between 10-49 employees whereas medium enterprises would be those employing between 50-99 employees. These enterprises annual sales threshold is 1.4 million and assets threshold is 1.4 million. According to EC, SMEs are those enterprises that employ fewer than 250 employees and have annual sales not exceeding 67 million Euros and/or total assets not exceeding and 56 million Euros. The MIGA and the IFC define small enterprise as those that meet two of the following three conditions; Employs less 50 employees, has less than 3 million US dollars total asset and has less than 3 million US dollars total annual sales. Meanwhile medium

enterprises are those that meet two of the following three conditions; less than 300 employees, less than US dollars 15 million total assets and less than US dollars 15 million total annual assets (Kazooba, 2010). Unlike the EC definition, the MIGA/IFC definition does not consider the staff headcount threshold mandatory for an enterprise to qualify as an SME. Asia Pacific Economic Cooperation (APEC) defines SMEs as enterprise with less than 100 people, whereby, a medium sized enterprise employs between 20-99 people, a small firm employs between 5and 19, and a micro firm employs less than 5 employees which includes self-employed managers (USAID, 2007). According to this definition, 75% of enterprises in APEC are micro, 21% were small and 4% medium sized between 1990 and 2000.

United Nations Industrial Development organization (UNIDO) advises countries to take into account the qualitative and quantitative indicators for SME definition (Africog, 2012). Table 2.1 summarizes the main qualitative indicators that may be used in order to differentiate between SMEs and large companies.

Table1. Qualitative indicators to distinguish between SMEs and large firms

Definitive characteristics of SMEs	Definitive characteristics of large companies
Management by their owners who are more centralized in their management.	Management by persons employed specifically for that purpose, not necessarily having fundamental ties to the enterprise
Being set up by persons seeking to venture out into self-employment on being family run	Being set up by persons groups or other established companies
Having substantially weaker delegation and departmentalization.	Having concrete delegation and departmentalization for each functional need.
Being more focused on short-term needs and medium- term survival than on long-term profitability or market share.	Being focused on long term profitability or market share.
Requiring little capital and equipment for operations in some cases, having employees with low-level skills and training.	Requiring substantial amount of capital for operations, and though having employees with low level skills and training, needing employees with higher skills for management and other purposes
Being numerous and therefore making it difficult to keep track of and regulate them.	Are less numerous than SMEs and can therefore be easier regulated and brought together for joint efforts.

Source: Africog (2012), USAID (2007) and Gibson (2008)

In Kenya, there has been attempt to define SME, for instance, ICPAK defines an SME, as an entity that meets the following conditions. First, a SME does not have public accountability. Secondly, it publishes general purpose financial statement for external users such as Kenya Revenue Authority, existing and potential creditors and credit rating agencies among others. Thirdly, an SME does not trade in its debt and equity investment. Lastly, it does not hold funds in a fiduciary capacity for a broad group of outsiders as one of its primary businesses such as banks trade unions, insurance companies, securities brokers/dealers, mutual funds and investment banks. Definitions of SMEs in Kenya take a different definition for tax purposes. It is any business with an annual turnover not exceeding shs 5 million (Mullei, 2008).

2.2 The Concept of Growth

The enterprise growth is used to describe a development process of an enterprise from small to big and from weak to strong (Mao, 2009). It is a complex adjustment process which is different to the simple scale extension. It takes the balance adjustment of various relations in the interior and the exterior of the enterprise as the essential character. It is the process of balanced development from unbalance to balance and from lower balance to upper balance (Sun, 2004). Enterprise growth therefore is the development process that enterprise keeps the tendencies of balanced and stable growth of total performance level (including output, sales volume, profit and assets gross) or keeps realizing the large enhancement of a total performance and the stage spanning of development quality and level (Sun, 2004).

From the meaning of enterprise growth three issues arise (Mao, 2009). First, the time property of growth-the premise to analyze the growth of an enterprise is long period in which the long-term development tendency and process of enterprise are observed and it is not the status of enterprise in certain point of time. Secondly, the dynamic property of enterprise growth, the growth of an enterprise is not a stable process without troubles. In the growth process, enterprises always transits from balance to unbalance and the result is to transit from unbalance to balance and from lower balance to higher balance through unbalance. Finally, the third issue is that the enterprise growth is the verification of quality and quantity. The increase of quantity is embodied in the extension of enterprise scale such as the increase of sales volume, market share, production value, profit and employees. The growth of quality is embodied in the enhancement of enterprise quality, which includes the technological innovation ability from immature to mature production technology, the optimal efficiency of investment and output, and organizational innovation and form. The proposed study will use this aspect to measure growth strategies through their performance.

A firm can-grow in two way: either by performing mergers and acquisition (external growth) or by increasing its own assets or output through the reinvestment of its cash flows in existing business (internal/or organic growth) (Samaras, 2007). Both types of growth strategies are regularly used simultaneously and have advantages and drawbacks. The advantage of external growth is its ability to create synergies and market power (Pierce & Robinson, 2011) However, external growth can also destroy value if the management reinvests the firm's resources or free cash flows in inefficient project of their own personal interest. Synergy gains can be defined as the ability of a combination to be more profitable than the individual units that are combining (Gaughan, 2002). The origins of these synergies are diverse. Firstly they can originate from economies of scale (Burns, 2007). The sources of gains of economies of scale due to mergers and acquisitions are in production, administration and marketing. Synergies may also derive from better corporate control on the target firm (Sun, 2004). Another rationale for merging is market power. Market power refers to the capacity of a company to act independently of its competitors and client (Mao, 2009).

Internal growth provides more corporate control, encourage internal entrepreneurship and protect organizational culture for different reasons. First of all, managers have a better knowledge of their own firm and assets, and how the internal investments are likely to be better planned. In addition, synergies may also be costly to exploit making it again more interesting to invest internally (Denrell et al 2003). Internal growth prevents top management styles and firm structures differences which destroy value in combinations. Finally, companies that are investing internally are so able to create sustainable competitive advantages since their value creating processes and positions are less likely to be duplicated or imitated by other firms. Internal growth strategies are more private and less prone to any hostile action from other companies. This leads to better rewards from the capital market (Kellen, 2003).

Corporate growth is commonly characterized as a dichotomy. These are organic and inorganic growth. Organic growth is usually defined as a company's growth rate excluding any scale increase from takeovers, merges and acquisitions (Pearce & Robinson, 2011). This type of growth is referred to as the enterprise's core growth. Organic growth is generated, for example, by selling more products (goods and services) to current customers (penetration/concentration), selling products to new customers (market development) or selling product at higher price. Firms relying on organic growth derive most of their expansion internally, by enhancing current customer relationships and building new relationships. Most importantly, organic growth is received with great favour by the financial market (Pasanen, 2006) whereas non-organic is far less favored. Past literature typically studies either the corporate performance or the market performance of firms following merges and acquisitions. Nevertheless, little research has been made about the performance related to internal growth (Dalton & Dalton, 2006). Its view of the above, that, the proposed study is designed to analyze the influence of organic growth strategies on the performance of SMEs in Thika Sub-County, Kenya.

2.3 Ansoff's Growth Strategies

Marketing is the management process responsible for identifying, anticipating and satisfying customers' requirements profitability (Pearce & Robinson, 2011). To do this organizations need a marketing strategy. The main purpose of a marketing strategy in to set out the means by which agreed marketing objectives was to be achieved. There are many types of marketing objectives. They include increasing market share, growing sales/turnover, enhancing the strength of the brand creating loyal customers managing casts effectively, thus increasing profitability. A common marketing objective is to achieve growth. Growth can be achieved through internal expansion (organic growth) or mergers, acquisition and takeovers (inorganic growth). One positive benefit of growth is that, it helps a business to reduce costs through economies of scale. These include efficiencies arising from use of new technologies, improved buying power as it can bulk buy at lower costs and

the ability to recruit more specialists to improve decisions making among others (Fink & Kraus, 2009). By lowering the costs, an organization increases its profitability and becomes more competitive.

One way of analyzing the various strategies that an organization may use to grow the business is with Igor Anoff's (1965) Matrix. This Matrix focus on the firm's present and potential product and market (customers). By considering ways to grow via existing product and new product, and in existing market and new markets, there are four alternative corporate growth strategies.

Table 2: Anoff's Matrix for Product-Market growth

	Existing product	**New product**
Existing Market	Market penetration	Product development
New Market	Market development	Diversification

Source: Ansoff (1965)

The model (matrix) indicates four principal product-market strategies, which can be summarized as: Market penetration. The firm or business aim to achieve growth with existing product in their current market segment, aiming to increase its market share, Market development. The firm seeks growth by targeting its existing product to new market segments, Product development. The firm develops new product targeted to its existing market segments and diversification. The firm grows by diversifying into new businesses by developing new product for new markets. The study adapted the Ansoff's product-market growth matrix as the theoretical model to guide it.

2.4 Organic Growth Strategies and Performance of SMEs

The theoretical model for strategic choice adopted by the proposed study is Igor Ansoff's product-market strategies (1965). The model provides four different growth strategies. These strategies and their relationships to the performance of SMEs are explained in detail in this section.

2.4.1 Market Penetration Strategy and Performance of SMEs

In this strategy the business aims to focus its activities on increasing its market share by exploiting its present product range in its present market (Fink & Kraus, 2009). This strategy can be called consolidation strategy, where the maintenance of market share rather than growth is sought. This strategy is the least risky among the four growth strategies since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limit. However, market penetration has limits, and once the market approaches saturation point, another strategy must be pursued if the firm is to continue to grow.

Sije & Oloko (2013) examined the relationship between penetration and the performance of SMEs in Kenya. The study found out that there was a strong positive correlation between penetration strategy and performance of SMEs. Pearce & Robinson (2012) enumerates specific options under the penetration strategies (increasing use of present product in present market). The study used the rate of growth of customer base as an indicator for the penetration strategy.

2.4.2 Market Development Strategy and Performance of SMEs

This strategy involves taking present products into fresh market, and thus focusing activities on market opportunities and competitor situations (Pearce & Robinson, 2011). The options in this strategy include the pursuit of individual market segment or geographical regions. The development of new market for the product may be a good strategy if the firm's core competencies are related to the more specific product than to its experience with a specific market segment (Machuki, 2012). Since the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy (Yabs, 2010).

Market development consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion (Pearce & Robinson, 2011). Market development allows firms to leverage some of their traditional strengths by identifying new uses. Frequently, changes in media selection, promotional appeal and distribution, signal the implementation of this strategy.

The study used the number of new markets (branches) as an indicator for the market development strategy.

2.4.3 Product Development Strategy and Performance of SMEs

This strategy involves introducing new products into existing market, and thus focusing on developing, launching and supporting additions to the product range (Cole, 1997). This strategy is appropriate if the firm's strength is related to developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share (Pierce & Robinson, 2011). A product is anything that can be offered to a market for attention, acquisition, or consumption that might satisfy a want or need (Kottler & Armstrong, 2000). A product is about quality, design, features, brand name and sizes (Adawale & Oyewale, 2013). In addition, a product is about the physical appearance of the product, packaging and label information which can also influence whether consumer notice a product in store, examine it and purchase it (Sun, 2004). Past studies have clearly suggested that product influences have a significant impact on business performance (Kozen & Heijden, 2006). Product development involves the substantial modification of existing product or creation of new but related product that can be marketed to current customer through established channel. The product development strategy is adopted either to prolong the lifecycle of current products or to take advantage of a favourite reputation or brand name. The idea is to attract satisfied customers to new product as a result of their positive experience with the firm's initial offering.
The study used the number of new products developed that are related to the original product line as an indicator for the product development strategy.

2.4.4 Diversification Strategy and Performance of SMEs

This strategy is the branching out both into new products and new markets. This strategy is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm (Fink & Kraus, 2009). It is a reasonable choice if the high risk is complimented by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk. The strategy can be further sub-divided into horizontal diversification, vertical integration, concentric diversification and conglomerate diversification (Pasanen, 2007). Diversification strategies are aimed at extending the core business of the enterprise (Thompson, 2001). They achieve this through the four sub-divisions of diversification: horizontal, vertical, concentric and conglomeration. Horizontal diversification occurs when an enterprise takes over a business of the same type and with a related technology while vertical diversification refers to the take-over of either a supplier's firm or a distributor's firm. Concentric diversification occurs when an enterprise takes over another firm with similar type of strong connections to one or more of its features.
Conglomerate diversification is where an enterprise takes over another in a completely new product market situation. A number of diversification strategies have been suggested by Jefferson and associates (2009).

The study adapted some of above strategies that are in line with internal growth strategies and analyzed their influence on the SMEs performance. Specifically, the researcher used the number of new products developed that are unrelated to the original product line as an indicator of diversification strategy.

2.5. Empirical literature

Pasanen (2007) evaluated empirical data on factors affecting the growth and performance of SMEs. The aim was to identify strategic factors differentiating two types of growth firms, organic and acquisition growth SMEs. The study found out, a firm's growth pattern is associated with SME characteristics such as scale of operation, firm's age, founders, and product and customer structures. He found out that, the long-lived SMEs choose the acquisition based growth strategy but the young ones choose the organic growth strategies. Acquisition of other firms and their businesses require resources to buy them which young firms lack while it can be an attractive growth opportunity for the long-lived firms. He also found out that the scale of operation is larger in case of acquisition (inorganic) based strategies; small firms get the opportunity to use the existing resources of the larger firms to leverage their growth. The benefits brought by small firms being acquired by larger firms include greater market power, less business risk, acquisition synergies, and acquisition of new knowledge and industry restructuring. Most of the large firms chose non-organic (acquisition based strategies) while the small firms

chose the organic strategies. It is in view of this, that the proposed study will analyze the influence of organic (internal) growth strategies on the performance of SMEs. The study however, limited itself to the organic growth strategies and their influence on performance of the SMEs but did not consider the characteristics of the SMEs.

Burns (2007) discusses the different growth options and organic strategies an entrepreneur may choose depending upon its appropriateness to the firm's current circumstances. These include market penetration, product development, market development and diversification. As a part of its organic growth strategy, regardless of its size, a firm should plan systematically for the sales growth for future organizational structure and know how to support diversification and expansion. For a firm to experience fast growth, three strategies of scaling, duplicating and granulating should be employed (Von & Consumano, 2011). Scaling strategy means production of large volume of products in the area of expertise of the firm. This involves investing aggressively to approach new customers. Marketing and sales activities are increased. Product development is extended around core technologies. The proposed study will investigate how the SMEs utilize the scaling strategy to capture new customers. Duplication involves expanding and repeating same business models with same product and services into new geographical areas and region which involves market development. The proposed study will analyze the utilization of the market development strategy and how it influences the growth of SMEs in Thika sub-county. Due to extensive duplication and limitation of scaling and duplication, granulation is the strategy chosen by the firms to concentrate only on the aggressive growth business granules. Firms explore new business units (SBUs) in new areas using existing knowledge. The current study also established how SMEs in Thika sub-county utilized this strategy to grow their business. This involved both the penetration and market development strategies.

The relationship between one of the internal growth strategy, diversification and firm's performance has been subject of abundant research in several fields. However, many researchers concur on the fact that there is no agreement on the precise nature of the relationship between diversification and performance (Cardinal& Miller, 2000). Ojo (2009) examined the impact of corporate diversification on firm performance in selected Nigerian companies. He found out that geographical diversification impacted on performance of the companies positively. Sije & Oloko (2013) explain conceptually and provide evidence that no relationship exist between diversification and performance. Due to these contradictory results, there was need for further research on the issue. The impact of diversification on a firm's performance has not received adequate research attention in developing countries (Ojo, 2009). The current study attempted to fill this gap.

Machuki (2012) focused on the relationship between organic growth strategies employed by firms and the performance of the firms in the banking industry in Kenya. He considered strategies such as market development, product development and innovation. He found out that there was a significant relationship between internal growth strategies and bank performance. Further, the study found out that the strategy implementation conditions needed for the execution of each strategy partly mediated the relationship between growth strategies and bank performance. The current study, however, included the market penetration and diversification strategies and based its study on the performance of SMEs in Thika Sub-County.

2.6 Research Gaps

Pasanen (2007) evaluated empirical data on factors affecting the growth and performance of SMEs. The aim was to identify strategic factors differentiating two types of growth firms, organic and acquisition growth SMEs. The study found out that, a firm's growth pattern is associated with SME characteristics such as scale of operation, firm's age, founders, and product and customer structures. However, the current study analyzed the influence of growth strategies on the performance of SMEs in Thika Sub-County.

Ojo (2009) examined the impact of corporate diversification on firm performance in selected Nigerian companies. He further notes that the impact of diversification on firm performance has not received adequate research attention in developing countries. It is in view of this that proposed study is designed to analyze the influence of diversification on the performance of SMEs in Thika Sub-County. Machuki (2012) carried a study on the relationship between organic growth strategies and performance of banks in Kenya. This study is critical to the proposed study. The study considered innovation, market development and product development strategies on the performance of commercial banks in Kenya. The study focused on the SMEs in Thika Sub-County. It also included the penetration and diversification strategies. Innovation was considered as ingredient for each strategy and was not considered separately.

3.0 Methodology

3.1 Research Design

The study used descriptive survey design. Survey is a way of obtaining information by asking a set of pre-formulated questions in a pre-determined sequence in a structured questionnaire to a sample of individuals drawn so as to be representative of a defined population (Mukherji & Albon, 2010). It was used because it can make use of both qualitative and quantitative methods in the same study. In addition, the findings can be generalized (Cohen, Manion & Marrison, 2011). The study used descriptive survey design because it set to find out how the SMEs in Thika Sub-County carry out organic growth strategies and their influence on performance of their businesses. This is line with the description of the design by Mukherji & Albon (2010) .

3.2 Locale /Study Location

The study was located in Thika sub-County; one of the twelve (12) sub-counties of Kiambu County, Kenya. Thika Sub-County occupies an area of 453.6 KM^2 and it has 4 divisions, 5 wards, 9 locations and 18 sub-locations (Kiambu County Planning Unit, 2013) (Appendix II). Thika Sub-County has a population of 165, 342; 82, 680 males and 82,662 females (KPHC, 2009). It is the home of Thika Town: an industrial town with about 100 small-scale industries and 20 major factories. The choice of Thika Sub-County was informed by a number of factors. First, the many industries and factories in the sub-county and agricultural product processing factories provide the goods needed for establishment of SMEs. Secondly, the many recreational centres and facilities provide a rich ground for growth of SMEs. Thirdly, Thika Sub-county is serviced by an eight-lane Thika superhighway to Central highlands. This well-laid infrastructure provides a rich ground for marketing of the SMEs products.

Fourth, the sub-county boasts of three universities and ten middle level colleges providing cheap and highly educated human resources needed to develop good business plan, innovative products and growth strategies for the SMEs. Finally, Thika sub-county has 4805 SMEs with the potential for growth due to the opportunities highlighted. This informed the choice of the study area.

3.3 Target Population

According to Mugenda & Mugenda (2003), a population refers to an entire group of individuals, event or object having a common observable characteristic. The SMEs in Kenya formed the population of the study. A target population is the population to which a researcher wants to generalize the results of a study (Mugenda & Mugenda, 2003). The target population was the 4805 SMEs in Thika Sub-County.

3.4 Sampling Procedure and Techniques

A number of samples were used in the study. Different sampling procedures and techniques were used as outlined below:
a) *SMEs*
Stratified sampling technique was used to sample the SMEs. A list obtained from the business register in Thika sub-county revenue office indicated that SMEs are divided into seven (7) different categories depending on the main activity. These categories formed the seven (7) strata. A stratum is a statistical sub-population (Mugenda & Mugenda, 2003). These strata include (i) small and medium industrial plants, factories/workshop/ service repair contractors (ii) private education, health and entertainment facilities (iii) professional, technical and financial institution and Accommodation and catering. Others include (v) agricultural, producer, processor/ dealers and exporters (vi) transport, storage and communication and (vii) general traders, traders and retails services. Stratified sampling technique was used to sample the SMEs from these seven strata. A representative sample from each stratum was then chosen.
b) *Individual SMEs*
Once the number from each stratum was determined, simple random technique was used to sample the individual SME. All the SMEs in each stratum were assigned numbers. The actual SME to be involved in the study was then randomly picked without replacement until the required number from each stratum was obtained. Simple random sampling technique was preferred since it gave each SME an equal chance of being selected. Random sampling allows generalizability to a larger population and allows use of inferential statistics; which the proposed study intends to use in data analysis.

Stratified random sampling was chosen for the study because it ensured inclusion in the sample, of sub-groups (stratum) which otherwise be omitted entirely by other sampling methods because of their smaller number in the population (Mugenda & Mugenda, 2003).

c)   *Respondents the Study*

Purposive sampling technique was used to sample the respondents. This technique allows a researcher to use cases that have the required information with respect to the objectives of the study (Mugenda & Mugenda, 2003). To this end, the CEO/ Owner or marketing manager in the SME were sampled to fill the questionnaire. This is because the CEO and Marketing manager were privy to the organic growth strategies employed by the SME and the performance of the SME.

3.5 Sample Size

According to the business register obtained at the Thika sub-county officer in Thika town, there were 4805 registered SMEs in the sub-county. The sample size was determined by the following formula adapted from Nassiuma (2000: 16).

$$n = \frac{N\,cv^2}{CV^2 + (N-1)e^2}$$

Where CV= coefficient of variation

N= population

e = relative standard error

In most surveys, CV of at most 30 percent and a relative standard error of 5 percent are usually acceptable (Nassiuma, 2000).

Since N = 4805, e = 5%, CV = 30%, thus,

$$n = \frac{4805 \times 0.3^2}{0.3 + (4805 - 1)0.05^2}$$

= 35.73967

= 36

Proportional sampling was used to determine the appropriate representation. Proportional sampling requires that the researcher be able to identify the percentage of the population each stratum contains. The researcher then samples the population proportionally, based on these percentages (Dempsey & Dempsey, 2000). This was determined using the following formula:

$$No\ of\ SMEs\ in\ each\ stratum = \frac{No.\ of\ SMEs\ in\ stratum}{Total\ No.\ of\ SMEs} \times sample\ size\ (36)$$

The sampling frame/grid is shown in table 3.

Table3. Sampling Frame

No	Stratum /Category	No of SMEs	Sample
1.	Small and medium industrial plants factories/workshop/service/repair contractors	592	4
2	Private education, health and entertainment facilities	520	4
3	Professional, technical and financial institutions	202	2
4.	Accommodation and catering	1608	12
5.	Agricultural, producer, processor/dealer and exporters	511	3
6	Transport, storage and communication	497	4
7.	General trader, traders and retail services	875	7
	Total	**4805**	**36**

3.6 Construction of Research Instruments

An Organic Growth Strategies and Performance Questionnaire (OGSP) were used to collect data. Some of its items were adopted from Machuki (2012). This was aimed at increasing validity and reliability. The OGSP consisted of four (4) sections. Section I was about general information. It consisted of two sections: Section A and B. Section A was used to capture data on the demographic characteristic of the respondents; gender, position held in the SMEs and length of service. Section B captured data on the business characteristics of the SME. Section II was on growth strategies; penetration, market development, product development and diversification strategies. Section III was on performance of the SMEs. In most empirical studies of this nature, performance is measured by sales growth, number of employees, market share, profitability and survival. The study used sales revenue and net profit as indicators of the performance of an SME (Net profit margin ratio).

3.7 Piloting of the Research Instruments

The developed questionnaire (OGSP) was piloted in seven (7) SMEs: One from each of the seven strata. The SMEs used in piloting were exempted from the main study. A piloting exercise has several functions, principally to increase the reliability, validity and practicability of the questionnaire (Cohen, Marion & Marrison, 2011). It was done in order to refine the instruments and establish the logistics for the main study. It explored the appropriateness of questions to the target population. It was done also to test the correctness of the instructions given in the questionnaire. It also provided better information on whether the study was effective in fulfilling the purpose of the study (Cohen *et al*, 2011).

3.8 Test for Validity and Reliability

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Saunders, Lewis and Thorn hill, 2003). Kunder-Richardson (KR) 20 formula was used in assessing reliability of the questionnaire. The K.R 20 formula is as follows

$$KR_{20} = \frac{K[S^2 - \sum s^2]}{S^2(K-1)}$$

(Adapted from Mugenda & Mugenda, 2003)

Where:

KR_{20} = Reliability coefficient in internal consistency

K = Number of items used to measure the concept

S^2 = Variance of all scores

s^2 = Variance of individual items

A Cronbach's coefficient Alpha of 0.87 was obtained. This value was above the recommended minimum of 0.7 (Mugenda & Mugenda, 2003). KR_{20} estimate was used since it reduces the time required to compute a reliability coefficient compared to other methods. Its application also results into a more conservative estimate of reliability of data hence it avoids erroneous conclusions (Mugenda & Mugenda, 2003). Validity is concerned with whether the findings are really about what they appear to be about (Saunders, Lewis & Thornhill, 2003). It is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. It has to do with how accurately the data obtained represent the variables of the study (Mugenda & Mugenda, 2003). In order to enhance validity of the instruments for study, the questionnaire was given to three (3) experts in the area of business management at Mt. Kenya University to obtain expert opinion, In addition, some of the items were adapted from Machuki (2012), Nyagah (2013) and Blackman (2003).

Data Analysis, Techniques and Procedures

The filled questionnaires were checked for completeness. The study targeted 36 CEO or marketing manager or owners of the stratified randomly selected 36 SMEs. All the thirty six (36) questionnaires were returned which was 100% response rate. A response rate of 80% and over is deemed excellent for proper data analysis

(Mugenda & Mugenda, 2003). After cleaning the data, coding then followed. A code book was prepared and used to transfer information into a code sheet and which in turn was used when entering data into the SPSS software. Cross tabulations were then run to check for errors. Data germane to the study were analyzed using both descriptive and inferential statistics. Data were first presented in frequency distribution tables. Percentages and mean were then used to analyze the data on demographic characteristics of the respondents and general information about the SMEs. Pearson product moment coefficient of correlation (r) will be used to establish the relationship between each of the organic growth strategy (penetration, market development, product development and diversification) and the performance of an SME. There are several possible formulae but a practical one is shown below.

$$ r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2} \; x \; \sqrt{n\sum Y^2 - (\sum Y)^2}} $$

Where X = The rate of growth of customer base (penetration strategy) or number of new branches opened (market development strategy) or number of new products related to the original product line (product development strategy) or number of new products unrelated to the original product line (diversification strategy)

Y = Performance of the SME measured by the Net profit Margin ratio (Net profit/ sales).

To test the whether the value of **r** is sufficiently different from zero so as to decide whether the X and Y values are correlated a **t** test was computed. The test may be stated in summary

H_0 : $\rho = 0$

H_1 : $\rho \neq 0$

In order to test for the significance of r a **t** test was also computed using the formula adopted from Lucey (2002: 131)

$$ |t| = \left| \frac{r - \rho}{\sqrt{1 - r^2}} \; x \; \sqrt{n - 2} \right| $$

Regression analysis was used to establish a model for the relationship between the growth strategies and performance of SMEs. The multiple regression model took the following form:

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

Where β_0 is the constant, X_1 = penetration strategy, X_2 = Market Development strategy, X_3 = product development strategy, X_4 = diversification strategy, e_i = error term while Y = performance of SME.

A coefficient of determination, r^2 was then computed to establish the proportion of performance of SME that may be predicted by organic growth strategies.

To test the significance for α and β values a **t** test statistic was then computed:

For the intercept

H_o : α = some chosen value

H_1: α ≠ some chosen value

The **t** test statistic was computed as follows:

$$ t = \frac{a - \alpha}{s_a} $$

Where a = the intercept

α = population value for the intercept

s_a = standard error for the intercept

For the gradient

H_o : β = 0

H_1 : β ≠ 0

The **t** test statistic was computed as follows:

$$ t = \frac{b - \beta}{s_b} $$

Where b = the gradient

β = population value for the gradient

s_b = standard error for the gradient

The findings were tested at a significant level (**α**) of .05. Qualitative data was then analyzed thematically.

4.0 Findings

4.1 Demographic Characteristics of the Respondents

The study sought the gender distribution in the running of SMEs. The study considered a number of demographic characteristics of the respondents. These included gender, position held in the firm and the length of service.

4.1.1 Distribution of Respondents by Gender

The study was interested in establishing the distribution of the respondents by gender. The findings are presented in table 4.

Table4. Distribution of Respondents by Gender

Gender	F	%
Male	33	91.7
Female	3	8.3
Total	36	100

Table 4 shows that 33(91.7%) of the respondents were males and only 3(8.3%) were females. This showed disparity in the gender representation in the running of the SMEs. Perhaps this can be explained by the fact that most of the SMEs are family businesses and most families trust their sons to run the businesses for them.

4.1.2 Position held by the respondent held in the firm

The study also sought to establish the position held by the respondents in the firm on the size of SMEs. The findings are presented in table 5

Table 5: Distribution of the position held by size of the SME

Position		Size of the SME		
		Small	Medium	Total
Owner	f	9	3	12
	%	25	8.3	33.3
Employed CEO	f	9	11	20
	%	25	30.5	55.6
Marketing manager	f	2	2	4
	%	0.5	0.5	11.1
Total	f	20	16	36
	%	55	44.1	100

Table 5 shows that 20 (55.6%) of the respondents were employed as the Chief Executive Officer, 12 (33.3%) of the respondent were the owners of the firms cum CEO while 4 (11.1%) were marketing managers. Most (11 or 34.6%) of the medium enterprises employed CEOs to run the business for them.

4.1.3 Length of service in the current firm

For a manager/CEO/Owner/marketing manager to develop appropriate growth strategy for a firm he/she must have served in the firm for a while. For this reason, the study was designed to establish the length of the service of the respondents in their current firm. The result are presented in table 6.

Table 6: Distribution of Respondents by Length of Service

Length of service (yrs)	f	%
0-5	5	13.6
5-10	21	58.3
Above 10 years	10	27.8
Total	**36**	**100.0**

Table 6 shows that majority, 21(58.3%) of the respondents had served between 5-10yrs in their current firms, followed by 10(27.8%) who had served over 10 years and only 5(13.9%) had served for less than 5 years. This can be explained by the fact that majority of these businesses are ran by family members who grow with the business. This is good for the business as they are aware of the best strategies to employ to bring growth to their firms.

4.2 Business Characteristics

The study was also designed to establish the form of business ownership and category of the business carried out by the SMEs. These characteristics are described in this section

4.2.1 Form of business ownership

The sampled SMEs were sole proprietorship, partnership or limited companies. Table 7 presents the form of business ownership of these SMEs.

Table 7: Form of Business Ownership by Size of the SMEs

Form of Business		Size of the SME		
		Small	Medium	Total
Partnership	f	7	5	12
	%	19.4	13.9	33.3
Sole proprietorship	f	11	3	14
	%	30.6	8.3	38.9
Limited liability	f	2	8	10
	%	5.6	22.2	27.8
Total	f	20	16	36
	%	55.6	44.4	100

Table 7 shows that majority, 14 (38.9 %) of the SMEs were sole proprietorships, followed by 12 (33.3 %) which were partnerships while 10(27.8%) were limited companies. Majority, 11(30.6%) of the small enterprises are sole proprietorships, followed by 7 (19.4%) were partnership and only 2(5.6%) were limited companies. For the medium enterprises, majority, 8 (22.2%) were limited companies, followed by 5 (13.9%) and only 3 (8.3%) were sole proprietorships.

4.2.2 Category of business

The study also sought to establish the category of business of the 36 sampled SMEs. Table 8 presents shows a cross-tabulation of these results.

Table 8: Cross-Tabulation of Category of Business by Size of the SMEs

Category			Size of SME		
			Small	Medium	Total
1. Small plant, factory, workshop repairs/contractor		f	2	2	4
		%	5.6	5.6	11.2
2 Private education, health and entertainment facilities		f	2	1	3
		%	5.6	2.8	8.4
3 Professional, technical and financial institutions		f	1	2	3
		%	2.8	5.6	8.4
4 Accommodation and catering		f	10	4	14
		%	27.8	11.2	38.9
5 Agricultural, producers, processors, dealers , exporter		f	0	3	3
		%	0	8.4	8.4
6 Transport, storage and communication		f	1	3	4
		%	2.8	8.4	11.2
7 General trader, trader and retail services		f	4	1	5
		%	11.2	2.8	13.9
Total		**f**	**20**	**16**	**36**
		%	**55.6**	**44.4**	**100**

Table 8 shows that majority, 20 (56 %) of the SMEs were small enterprises while 16 (44.4 %) were medium enterprises. It also shows that majority, 14 (38.9%) were in the category of accommodation and catering, followed by 5 (13.9%) general traders, traders and retailer services, next were 4 (11.2 %) each in the transport, storage and communication and Small plant, factory, workshop repairs/contractor categories, and last were 3 (8.4 %) each for Agricultural, producers, processors, dealers, exporters and private education, health and entertainment facilities categories. This scenario can be explained by the fact that Thika Sub-County has many private education institutions that required accommodation for the many students. In addition, Thika Town is frequented by many levelers who need accommodation and catering services.

4.3 Influence of Organic growth strategies on performance of small and medium enterprises (SMEs)

The study was designed to analyze the influence of organic growth strategies on performance of SMEs in Thika Sub-County. This section is aimed at analyzing the relationship between penetration, market development, and product development and diversification strategies on performance of SMEs in Thika Sub-County.

4.3.1 Influence of penetration strategy on performance of SMEs
The penetration strategy was measured using the rate of growth of customer base in a scale of 0-100%. The mean growth rate in customer base for the small and the medium enterprises was computed. The results are presented in table 9.

Table 9: Rate of growth of customer base by size of SMEs

Size of SME	n	Mean	Std. Deviation	Std. Error mean
Small	20	26.50	29.422	6.579
Medium	16	25.81	26.458	6.615

Table 9 shows that the rate of growth of customer base for the small enterprises was higher ($M = 26.50, SD = 6.579$) than that of the medium enterprise ($M = 25.81, SD = 6.61$). In order to test whether there was any significance difference between mean rate of growth of customer base between the small and medium independent sample *t* test was computed using the SPSS program. The results are presented in table 10.

Table 10: Independent sample *t* test on the mean of rate of growth in Customer base between the small and medium enterprises

	Levene's test for equality of variances		*t* test for equality of means					95% confidence interval for mean	
	F	Sig.	*t*	df	Sig. (2-tailed)	Mean Differ ence	S.E Differ ence	Lower	Upper
Equal variances assumed	.226	.637	.073	34	.942	.688	9.443	-18.502	19.877
Equal variances not assumed			.074	33.486	.942	.688	9.329	-18.282	19.657

Table 10 shows that, the Levene's test revealed that the variance between the rates of growth of customer base was unequal. An unequal variance not assumed *t* test revealed that there was no statistically significant difference in the mean rate of growth in customer base between the small and medium enterprises, t $(34)= .0749.00, p = .942$. Perhaps the higher rate of growth of the small enterprises can be explained by the fact that the products of the small enterprises are seasonal and attract many customers at those peak seasons before they eventually close.

The study went further to establish the influence of rate of growth of customer base and performance of an SME. The performance of the SME was measured using the net profit margin ratio. The net profit margin ratio was calculated as percentage of the quotient of net profit divided by revenue (sales). The rate of growth values were correlated with the net profit margin ratio and the result are presented in table 11.

Table 11: Relationship on penetration strategy and performance of SME

Variable		Rate of growth of customer	Net profit margin ratio
Rate of growth of customers base	Pearson correlation	1	.399[*]
	Sig. (2-tailed)		.016
	n	36	36
Net profit margin ratio	Pearson correlation	.399[*]	1
	Sig. (2-tailed)	.016	
	n	36	36

*correlation is significant at the 0.05 level (2-tailed)

From table 11, it can be observed that Pearson product correlation coefficient, r (36) = .399, ρ = 0.016, α =.05 shows a positive relationship between penetration strategy (measured using the rate of growth of customer base) and performance (measured using the net profit margin ratio). The value r (36) = .399 was found to be significant at α =.05. Hence the null hypothesis H_o: ρ = 0, that there is no relationship between penetration strategy and performance of SMEs was rejected and the alternative hypothesis, H_o: ρ≠0, was accepted. Thus, the study concluded that there was a positive relationship between penetration strategy and performance of SMEs. Since r = 0.399, then r^2=0.159201. This implies that 15.9% of the total variation in performance of an SME can be accounted for by increasing the customer base.

4.3.2 Influence of market development strategy on performance of SMEs

The study also analyzed the relationship on market development strategy and performance of SMEs. Market development strategy was measured using the number of new markets branches that the firm opened in the 2013 financial year. The mean number of branches (new markets developed) opened for the small and the medium enterprises were computed. The results are presented in table 12.

Table 12: Mean Number of New Branches Opened by Size of SMEs

Size of SME	n	Mean	Std. Deviation	Std. Error mean
Small	Small	20	1.25	1.482
Medium	Medium	16	1.25	1.390

Table 12 shows that the mean number of new branches opened by both enterprises was equal for both the small and medium enterprises ($M = 1.25$). One average the SMEs opened at one new branch. This can be explained by the fact that most of the SMEs have little capital base to allow rapid expansion. The other factor could be attributed by the fact that most of these SMEs offer similar products with stiff competition that most prefer concentrating with current market than new markets which have higher risks. The study went on further to establish the relationship on the opening of new branches to market development and performance of SMEs. The results are presented in table 13

Table 13: Relationship on Market Development Strategy and Performance of SMEs

		New branches opened	Net profit margin ratio
New branches opened	Pearson correlation	1	.636**
	Sig. (2-tailed)		.000
	n	36	36
Net profit margin ratio	Pearson correlation	.636**	1
	Sig. (2-tailed)	.000	
	n	36	36

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

From table13, it can be observed that there is a positive correlation between the new branched opened and net profit ratio, r (36) = .489, ρ<.0005, α =.001. This implies that there was a positive relationship between market development strategy and performance of SMEs. The value of r (36) =.636 was found to be significant at α = .001. Hence the null hypothesis H_O: ρ = 0, that there was no relationship between market development strategy and performance of SMEs was rejected and the alternative hypothesis, H_o : ρ≠0,was accepted. Thus, the study concluded that there was positive relationship between market development strategy and performance of SMEs. The value of r = .636, then r^2 = 0.404496. This implies that 40.4 % of the total variation in performance of an SME can be accounted by market development strategy employed specifically by opening new branches which increase the customer base and eventually sales volume.

4.3.3 Influence of product development strategy performance of SME
The product development strategy was measured using the number of new products developed that were related to the original product line (Product development strategy) by the SME during the 2013 financial year. The mean number of new products related to the original product line developed by size of the SME was computed and the results were presented in table 14.

Table 14: Mean number of new products related to the original product developed by size of SMEs

Size of SME	N	Mean	Std. Deviation	Std. Error mean
Small	20	7.15	4.557	1.019
Medium	16	9.00	5.465	1.366

Table 14, shows that the mean number of new products related to the original product line developed was higher for the medium enterprises ($M = 9.00, SD = 5.465$) than that of the small enterprise $(M = 7.15, SD = 4.575)$. In order to test whether there was any significance difference between mean number of new related products between the small and medium enterprises, an independent sample *t* test was computed using the SPSS program. The results are presented in table 15.

Table 15: Independent sample t test of the mean of new related products between the small and medium enterprises

	Levene's test for equality of variances		*t* test for equality of means					95% confidence interval for mean	
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	S.E Difference	Lower	Upper
Equal variances assumed	.226	.637	.073	34	.942	.688	9.443	-18.502	19.877
Equal variances not assumed			.074	33.486	.942	.688	9.329	-18.282	19.657

Table 15, shows that, the Levene's test revealed that the variance between the rates of mean of number of new related product was unequal. An unequal variance not assumed *t* test revealed that there was no statistically significant difference in the mean rate of growth in customer base between the small and medium enterprises, t(34) = .074, ρ = .688, α = .05. Perhaps the higher rate of growth of the medium enterprises can be explained by the fact that medium enterprises have established brands. They only modify the existing products and therefore develop many brands related to their original ones.

The study further established the relationship between new products related to the original product line developed with the performance of SMEs. Pearson product correlation coefficient was computed. The correlations are presented in table 16.

Table 16: Relationship on Product Development Strategy and Performance of SMEs

Variables		Number of new products	Net profit margin ratio
Number of new products	Pearson correlation	1	.489**
	Sig. (2-tailed)		.002
	n	36	36
Net profit margin ratio	Pearson correlation	.489**	1
	Sig. (2-tailed)	.002	
	n	36	36

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

From table 16, it can be observed that there Pearson product correlation coefficient, r (36) = .489, α =.002, α =.05, shows a positive correlation between number of new product developed and performance of an SME. The value of r (36) = .489, $\rho = .002$ was found not to be statistically significant at α =.05. Hence the null hypothesis, H_o: $\rho = 0$, was rejected and the alternative hypothesis H_o: $\rho \neq 0$, was accepted. The study concluded that there is positive relationship between product development strategy and performance of SMEs.

4.3.4 Influence of diversification strategy on performance of SMEs.

The diversification strategy was measured using the number of new unrelated product to the original product line developed by the SME in the year 2013 financial year. The mean number of unrelated products by size of SME was calculated. The results were presented in table 17.

Table 17: Mean number of unrelated products to the original product line by size of SMEs

Size of SME	n	Mean	Std. Deviation	Std. Error mean
Small	20	3.06	2.349	.525
Medium	16	2.40	2.351	.588

Table 17, shows that the mean number of new unrelated products to the original product line (diversified products) developed small enterprises was higher ($M = 3.06, SD = 2.351$) than that of the medium enterprises ($M = 2.40, SD = 2.351$). In order to test whether there was any significance difference between mean of new products unrelated to the original products between the small and medium enterprises, an independent sample t test was computed using the SPSS program. The results are presented in table 18.

Table 18: Independent sample t test on mean of the number of diversified products developed between the Small and medium enterprises

	Levene's test for equality of variances		t test for equality of means					95% confidence interval for mean	
	F	Sig.	t	df	Sig. (2-tailed)	Mean Differe nce	S.E Differ ence	Lower	Upper
Equal variances	.064	.802	-.841	34	.406	-.663	.788	-2.264	.939
Equal variances not assumed			-.840	32.270	.407	-.663	.788	-2.268	.943

Table 18 shows that, the Levene's test revealed that the variance between mean of the number of diversified products developed was unequal. An unequal variance not assumed t test revealed that there was no statistically significant difference in the mean number of unrelated products developed and the size of the SME (absolute t (34) = .840, ρ = .407, α = .05). Perhaps, the higher mean of number of diversified products for the small enterprises could be explained by the fact that the small enterprises diversify their products depending on the season. The medium enterprises are rather conservative bearing in mind the higher risks involved in diversification strategies.

The study explored further the relationship between number of diversified products developed and the performance of SMEs. Pearson product correlation coefficient was computed to establish the relationship between the number of new unrelated products to the original product line and performance of SMEs. The correlation are presented in table 19

Table 19: Relationship on diversification strategy and performance of SMEs

Variables		New products unrelated to the original product line	Net profit margin ratio
New products unrelated to the original product line	Pearson correlation	1	.461**
	Sig. (2-tailed)		.005
	n	36	36
Net profit margin ratio	Pearson correlation	.461**	1
	Sig. (2-tailed)	.005	
	n	36	36

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

Table 4.16 shows that there is a positive correlation between the new product unrelated to the original product line and net products margin ratio, r (36) = .461, ρ = .005, α =.01. The study implies that there is a positive correlation between the new products unrelated to the original product line and performance of SMEs. The value of r (36) = .461, ρ=.005 was found to be statistically significant at α = .05. Therefore the null hypothesis H_o: ρ = 0, was rejected and the alternative hypothesis H_o : $\rho \neq 0$ was accepted. This finding implies that there is a positive

correlation between development of new products unrelated to the original product line (diversification) and performance of SMEs.

4.3.5 Influence of organic growth strategies and performance of SMEs.

The influence of the organic growth strategies; penetration, market development, product development and diversification on performance of SME was also analyzed. A linear regression analysis was done. The penetration strategy (x_1) market development (x_2) product development (x_3) and diversification strategy (x_4) formed the independent variables. The performance of the SMEs (y) formed the development variable. The regression model is summarized in table 20

Table 20: Model Summary

Model	R	R^2	Adjusted R^2	Std. error of estimate
1	.670[a]	.449	.378	3.45083

a. Predictors (constant), rate of growth customer base, growth in number of new branches, new products related to the original product line, new products unrelated to the original product line

Table 21: Analysis of Variance (ANOVA)

MODEL		SS	df	MS	f	Sig.
1	Regression	301.336	4	75.334	6.326	.001
	Residual	3689.156	31	11.908		
	Total	670.492	35			

Table 22: Coefficients

Model		Unstandardized coefficients		Standardized coefficient	t	Sig.
		B	Std. error			
1	Constant	5.196	1.128		4.608	.000
	Rate of customer base (x_1)	.007	.026	.044	.263	.008
	New branches (x_2)	1.670	.543	.542	3.073	.004
	New products related to original product line (x_3)	.102	.211	.211	.482	.633
	New product unrelated to original product line (x_4)	.078	.454	.454	.173	.864

a. Dependent variable: net profit margin ratio

From table 22, a regression model of the form shown below was obtained:

$$Y = 5.196 + .007 x_1 + 1.670 x_2 + .102 x_3 + .078 x_4 + 3.45$$

The F-ratio in the ANOVA table show that the independent variable statistically predict the dependent variable, $F (4, 31) = 6.326$, $\rho = .001$, $\alpha = .05$.

The t-values in table 4.19 shows that rate of growth of customer base (penetration strategy) (x_1) ($t = .263$, $\rho = .008$) and the new branches opened or market development strategy (x_2) ($t = .282$, $\rho = .004$) variables significantly account for variability of performance of SME. However, the variable (x_3) (representing the product development strategy) and (x_4) representing the diversification strategy do not significantly account for variability of performance of SME. The absolute t-vales for x_3 ($t = .482$, $\rho = .633$ and x_4 ($t = .173$, $\rho = .864$) are not statistically significantly at $\alpha = .05$.

The value of R^2 in table 4.17 of .449 shows that the independent variables explain 44.9% of the variability of performance of SME. In general, a multiple regression was run to predict the performance of SME (y) from penetration strategy (x_1) market development(x_2) product development (x_3) and diversification strategy (x_4). These variable statically significantly predict the performance, $F(4, 31) = 6.326$, $\rho = .001$, $\alpha = .05$, $R^2 = .449$. Only two of the variables x_1 and x_2 added statistically significantly to the prediction.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study was designed to analyze the influence of organic growth strategies on the performance of SMEs. The study analyzed the demographic characteristics of the respondents in order to understand their influence the development of internal strategies for growth. The study found out that 33(91.7%) of the respondents were males and only 3(8.3%) were females. This showed disparity in the gender representation in the running of the SMEs. Perhaps this can be explained by the fact that most of the SMEs are family businesses and most families trust the fathers and or their sons to run the businesses for them. In addition, development of organic strategies requires understanding the operations of the firm, the market, the competition, government policies among other which calls long working hours. The females may be constrained due to other family roles hence the preference of males as CEOs of the firms as opposed to females. The study further established that 20 (55.6%) of the respondents were employed as the Chief Executive Officers, 12 (33.3%) of the respondent were the owners of the firms cum CEOs while 4 (11.1%) were marketing managers. Further, it was found out that majority, 21(58.3%) of the respondents had served between 5-10yrs in their current firms, followed by 10(27.8%) who had served over 10 years and only 5(13.9%) had served for less than 5 years. This can be explained by the fact that majority of these businesses are ran by family members who grow with the business. This was good for the businesses as they are aware of the best strategies to employ to bring growth to their firms.

The study also analyzed the business characteristics of the firm to establish how they were likely to influence the development of internal growth strategies for the firms. The study found out that that majority, 14 (33.3%) of the SMEs were sole proprietorships, followed by 12 (38.9%) which were partnerships while 10(27.8%) were limited companies. It also found out that majority, 20 (56 %) of the SMEs were small enterprises while 16 (44.4 %) were medium enterprises. It also showed that majority, 14 (38.9%) were in the category of accommodation and catering, followed by 5 (13.9%) general traders, traders and retailer services, next were 4 (11.2 %) each in the transport, storage and communication and Small plant, factory, workshop repairs/contractor categories, and last were 3 (8.4 %) each for Agricultural, producers, processors, dealers, exporters and private education, health and entertainment facilities categories.

Specifically, the study was guided by four objectives. The first objective was to evaluate the influence of penetration strategy on the performance of SMEs in Thika sub-county. The penetration strategy was measured using the rate of growth of customer base for the SME in the 2013 financial year. The study found out that the rate of growth of customer base for the small enterprises was higher $(M = 26.50, SD = 6.579)$ than that of the medium enterprises $(M = 25.81, SD = 6.61)$. An unequal variance not assumed t test revealed that there was no statistically significant difference in the mean rate of growth in customer base between the small and medium enterprises, $t(34) = .0749$, $p = .942$. The study found that a positive relationship between penetration strategy (measured using the rate of growth of customer base) and performance (measured using the net profit margin ratio), $r(36) = .399$, $\rho = 0.016$, $\alpha = .05$. The value $r(36) = .399$ was found to be significant at $\alpha = .05$. Hence the null hypothesis H_o: $\rho = 0$, that there is no relationship between penetration strategy and performance of SMEs was rejected and the alternative hypothesis, H_o: $\rho \neq 0$, was accepted. Thus, the study concluded that there was a positive relationship between penetration strategy and performance of SMEs.

The second objective was to examine the influence of market development strategy on the performance of SME, in Thika Sub-county. The market development strategy was measured using the number of new branches (market) opened within the 2013 financial year. The study established that the mean number of new branches opened was equal for both the small and medium enterprises $(M = 1.25)$. The study also found out there was a positive relationship between market development strategy and performance of SMEs, $r(36) = .489$, $\rho < .0005$, $\alpha = .001$). The value of $r(36) = .636$ was found to be significant at $\alpha = .001$. Hence the null hypothesis, H_O: $\rho = 0$, that there is no relationship between market development strategy and performance of SMEs was rejected and the alternative hypothesis, H_o: $\rho \neq 0$, was accepted. Thus, the study concluded that there was a strong positive relationship between market development strategy and performance of SMEs.

The third objective was to assess the influence of product development strategy on the performance of SMEs in Thika Sub-county. Product development strategy was measured using the number of new products related to the original product line of the SME developed in 2013 financial year. The study found out that the mean number of new related products to the original product line developed was higher for the medium enterprises ($M = 9.00, SD = 5.465$) than that of the small enterprises ($M = 7.15, SD = 4.575$). An unequal variance not assumed t test revealed that there was no statistically significant difference in the mean of number of new products related to the original product line between the small and medium enterprises, t(34) = .074, ρ = .688, α = .05. The study found out that there was a positive correlation between number of new product developed and performance of an SME, r (36) = .489, α =.002, α =.05. However, the relationship was not to be statistically significant at α =.05. Hence the null hypothesis, H$_o$: $\rho = 0$, was rejected and the alternative hypothesis H$_o$: $\rho \neq 0$, was accepted. The study concluded that there is positive relationship between product development strategy and performance of SMEs.

The last objective was to analyze the influence of diversification strategy on the performance of SMEs in Thika Sub-county. Diversification was measured using the number of new products unrelated to the original product line developed in the 2013 financial year. The study established that the mean number of new unrelated products to the original product line (diversified products) developed by small enterprises was higher ($M = 3.06, SD = 2.351$) than that of the medium enterprises ($M = 2.40, SD = 2.351$). An unequal variance not assumed t test revealed that there was no statistically significant difference in the mean number of unrelated products developed and the size of the SMES, absolute t (34) = .840, ρ = .407, α = .05. The study also established that there was a positive correlation between the new product unrelated to the original product line and performance of SMEs, r (36) = .461, ρ = .005, α =.01. However, the relationship was found to be statistically significant at α = .05. Therefore the null hypothesis H$_o$: ρ = 0, was rejected and the alternative hypothesis H$_o$: ρ≠0 was accepted. This finding implies that there is a positive correlation between the new products unrelated to the original product line (diversification) developed and performance of SMEs.

Finally, the study aimed at developing a model for predicting the performance of SMEs using the organic growth strategies. A multiple regression was run to predict the performance of SME (y) from penetration strategy (x_1), market development(x_2), product development (x_3) and diversification strategy (x_4). These variables statistically significantly predicted the performance of SMEs, F (4, 31) = 6.326, ρ = .001, α =.05, R^2 = .449. Only two of the variables x_1 and x_2 added statistically significantly to the prediction. The value of .449 shows that the independent variables explain 44.9% of the variability of performance of SME.

5.2 Conclusion

The purpose of the study was to analyze the influence of organic growth strategies on the performance of SMEs in Thika Sub-County. The study made a number of conclusions based on the findings of the study.

The study concluded that there was any no statistically significant difference in the mean rate of growth in customer base between the small and medium enterprises. The size of the SME does influence the rate of customer growth. However, the organic growth strategies employed by a firm are instrumental in growing the customer base. The study also concluded penetration strategy positively influenced the performance of SMEs.

Following the finding that most SMEs opened one branch on average within the 2013 financial year, the study concluded that this growth strategy was approached with caution because expansion comes with a host of challenges. This is could explained by the fact that most SMEs offer similar products with stiff competition that most prefer concentrating with current market than new markets which have higher risks. However, the study concluded that market development strategy positively influenced the performance of SMEs.

With respect to the objective of assessing the influence of product development strategy, the study concluded that medium enterprises were able to develop new products related to the original product line since that had established brands that were well known to their customers. The small enterprises approached this strategy with more caution that the medium enterprises. The study also concluded that product development strategy positively influenced the performance of SMEs.

The study was also designed to analyze the influence that diversification strategy and performance of SMEs. To this end, the study found out that number of new unrelated products to the original product line (diversified products) developed by small enterprises was higher than that of the medium enterprises. The study concluded

that medium enterprises approached diversification strategy more cautiously than the small enterprises. However, the number of unrelated products developed was not statistically significant to the size of the firm. It solely depends on the target market the size of the SME which would influence sales volume. The study also concluded that there diversification strategy positively influenced the performance of the SMEs.

Finally, the study concluded that organic growth strategies: penetration strategy, market development, product development and diversification strategy can be used predict the performance of SMEs. The four independent variables account 44.9% of the variability of performance of SMEs in Thika Sub-County. However, penetration strategy and market development added statistically significantly to the prediction.

5.3. Recommendations
Following the conclusions highlighted above, the study made a number of recommendations. First, the study recommends development of the organic growth strategies among the SMEs in order to spur growth. More specifically, the study recommends penetration and market development strategies for the both the small and medium enterprises since they have low risks. However, the product development and diversification strategies should be approached with caution since they involve more risks.

The study also recommends funding of the SMEs to enable them implement the organic growth strategies. Market research, idea incubation and development, establishment of research & development departments and capacity building of the CEOs/Owners of the SMEs require funding. The SMEs do not have funds for such significant activities hindering their growth.

The government should create a Ministry of Micro- Small and Medium Enterprises like other economies to contribute immensely in job creation. Such a Ministry should have a kitty to fund the SMEs and personnel to capacity build the owners and Managers of the SMEs.

5.4. Recommendations For further study
The study recommends further study in a number of areas. First, a study should be carried out to evaluate the influence of strategy implementation variables on the performance of SMEs. These variables include customer oriented culture, team learning, benchmarking with the best, investing in R & D, monitoring changes in technology, information sharing and implementation identified projects.

Secondly, the study recommends further study to be carried to analyse the influence of inorganic growth strategies on the performance of SMEs. These strategies include mergers and acquisitions.

Similar studies can be carried out in other sub-counties of Kiambu County and the rest of the Counties in Kenya.

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