

Analysis of Differentiation Strategy on Growth of Small and Medium Enterprises in Yagshid District Mogadishu Somalia

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Abstract: The study was underpinned by following theories; resource-based view, dynamic capability theory and the Porters Generic Model. Explanatory survey design was adopted in the study. Population of the study was 81 Small and Medium Enterprise registered operating in Yagshid district Mogadishu, Somalia. 8 Small and Medium Enterprise were selected and used in the pilot testing and they were not included in the final inquiry. Therefore 73 Small and Medium Enterprise were sampled in the study using census sampling techniques. The researcher used quantitative methodology in analyzing the data. Explanatory research design was used. Primary data was gathered with use of the questionnaire that was tested for validity and reliability prior to actual data collection. An interview schedule was used to collect information on growth. The collected data was cleaned edited, checked, coded, and analyzed with the help of statistical package for social science. Regression analysis was used to show the extent of the relationship between variables. Results of this study were presented through figures, graphs and tables. The study established that differentiation strategy ($\beta=.333$, $P<0.05$) had positive and significant effect on growth of Small and Medium Enterprise in Yagshid district Somalia. The study concludes that generic strategy is a key driver of growth of the Small and Medium Enterprise. The study recommends the managers of the Small and Medium Enterprise in Yagshid district Somalia should improve on Various forms of differentiation e.g., pricing, quality, after-sale services features and functionality.

Keyword: Generic Strategies, growth, differentiation and Small and Medium Enterprise

I. INTRODUCTION

Background to the Study

Growth of the Small and Medium Enterprise (SME) enables it to enhance its market share, expand the customer base, branch network and increase the sales revenues generated. In order to survive, enhance the market share and generate more profits, firms need to embrace strategies including the generic strategies (Garkaz, Javanshir, Zandieh & Sahar 2016). Adoption of generic strategies helps the firm to differentiate the product offering relative to other participants in the

industry (Islami, Mustafa & Latkovikj, 2020) so as to contribute towards growth. In Nepal, Bhattarai (2018) shared that majority of the firms have embraced differentiation strategy and this has sustainably influenced their growth.

Firms in Ghana have embraced Porters' Generic strategies, mostly differentiation to enhance their growth (Gyamfi, 2016). Among hotels in Tanzania, Justinian (2015) shared that when customer satisfaction is taken as an indicator of growth of the firm, generic strategies would not have a significant impact of growth prospects of an enterprise. The SME's in Kenya have adopted generic strategic as they seek to remain competitive and thus grow (Njuguna, 2015). More specifically, differentiation is the key generic strategies that most Kenyan firms are leveraging to gain competitive advantage as they seek to grow (Njuguna, 2015). In Somalia, the relationship between differentiation strategy and small and medium-sized enterprise development, particularly in the SME subsector in Somalia, has not received significant academic attention.

Statement of the Problem

The SMEs are faced with obstacles of changing business environment and increased competition which has threatened their growth. In a bit to counter these forces and grow, SMEs have been forced to reconfigure their generic strategies in place. In Yagshid District, Somalia, most of the SMEs are still in their infant stage as the country strives to recover from the previous decades of civil war that completely destroyed the economy. There are a lot of obstacles that the SME's faces including, lack of direction of SME's. Successful recovery and growth of these SMEs in Yagshid District require the adoption of such differentiation strategy as generic strategies hence the motivation of this study. Given the role played by these SMEs in Yagshid District and other parts of the country to the overall Gross Domestic Product of Somalia. The studies that link generic strategies and SME's growth were conducted in other countries such as Iran, India, and Kenya and not in Somalia thus creating contextual gaps. Therefore, in order to

fill these gaps, the study seeks to establish the influence of differentiation strategy on growth of small and medium enterprises in Yagshid District, Mogadishu Somalia.

Objective of the study

To evaluate influence of differentiation strategy on growth of Small and Medium Enterprises in Yagshid District, Mogadishu Somalia

II. LITERATURE REVIEW

Theoretical Framework

Porter's Generic Model of Competitive Advantage was used to anchor the present study. Porter (1980) noted that every generic strategy (e.g differentiation) can be independently applied in efforts to enable the entity to compete in a given industry of operation. As such, entities are required to decide on the three generic strategies that they should apply so as to compete and grow. It would be more efficient to apply one of the generic strategies as opposed to mixing all of them. In his book Porter (1980), Porter said that organizations who adopt generic tactics would obtain a competitive advantage and, therefore, thrive. Any organization that follows a strategy of focus, differentiation, or cost leadership, according to Porter (1980), will benefit from improved performance and competitive posture, which will result in increased growth. A company may be considered to be cost leader if it is able to cut the cost of goods in the industry in which it operates. Using this theory, we were able to develop a comprehensive understanding of generic strategies liker differentiation and how they contribute to the development of the organization.

Empirical Literature

Differentiation strategy on growth of Small and Medium Enterprises

Widuri and Sutanto (2019) did a study focusing on differentiation strategy and competition in the market as the key issues determining earnings management. This study was conducted among listed firms in Indonesia covering a period of 2011-2015. In total, 65 firms of manufacturing concern were targeted and covered by the inquiry. It was shown that the entities adopting differentiation strategy have fewer chances of engaging in real earnings management. It was shown that competition and differentiation strategy have a joint effect on earnings management. The study creates conceptual gap since it focuses on earnings management as the dependent variable and not growth.

Atikiya, Mukulu, Kihoro and Waiganjo (2015) conducted an inquiry on differentiation strategy and its link with performance of the Kenyan manufacturing entities. Survey method was used in gathering of the views of the participants from first hand sources. Both descriptive as well as explanatory designs were embraced by the inquiry. It was shown that differentiation strategy and the capability of the firm to perform are positively connected with each other. Maina and Kagiri (2016) sought to link differentiation

strategy and competitiveness of the organization focusing on the East African Breweries Limited (EABL). The inquiry was supported semi structured questionnaires that were used to gather the views from 14 managers. The analysis indicated that product process differentiation has been evident at EABL to ensure attainment of some specifications like material and design. Furthermore, product differentiation was seen to have a direct influence on competitive positioning of the entity. The gap exposed by these studies is both contextual and demographic scope. hence, the study focuses the differentiation strategy on sme's growth in yagshid district Mogadishu Somalia. The focus of this study was on 81 SMEs.

III. RESEARCH METHODOLOGY

Research Methodology

This study adopted the quantitative Research methodology. According to Creswell (2003), quantitative approach is based on variables with numbers and analyzed with statistical procedures.

Research Design

The study adopted an explanatory research design using quantitative methods. Explanatory design supported the use of regression analysis between differentiation strategy and firm growth. The research design was appropriate because there is scarce information in Yagshid and generally Mogadishu on SMEs growth.

Location of the Study

This study was conducted in Yagshid District in Somalia. Yagshid District is located on the southern side of Mogadishu the capital city of Somalia.

Target Population

The study targeted 81 SMEs operating in Yagshid District in Somalia. These SMEs were categorized into manufacturing and service-oriented business as summarized in Table 1.

Table 1: Categories of SMEs in Yagshid District

SME Category	Population
Manufacturing oriented SME	60
Service oriented SME	21
Total	81

Sampling Procedures and Techniques

The study adopted census and thus all the 81 SMEs operating in Yagshid District in Somalia were included in the study. However, 8 SMEs were used to conduct pilot test of the research instruments.

Construction of Research Instruments

The questionnaire was used to gather primary data. The five-point Likert scale was adopted in measuring the variables of interest in this inquiry.

Validity and Reliability of the Instrument

Content and construct validity were also adopted in this study. In this regard, the researcher shared the questionnaire with experts including the supervisor who was reviewed it along the reviewed literature and the constructs indicated in the conceptual framework. The comments obtained from this exercise guided further modification of the questionnaire before the actual data collection. The study tools were pilot tested in order to determine their reliability. The piloted instruments were adopted to generate the values of Cronbach Alpha coefficients with the value 0.7 and above taken as the threshold.

Data Analysis Techniques and Procedures

The analysis of the collected data was supported by descriptive & inferential statistics. The study leveraged means and standard deviations as well as frequencies and percentages as the key descriptive statistics. For the inferential statistics, regression analysis was adopted with the model as summarized under:

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

Where;

Y= Growth of SMEs

β_0 = Y intercept

β_1 = régression coefficients

X_1 = Differentiation strategy

ε = error term

IV. RESEARCH FINDINGS, ANALYSIS AND PRESENTATION

Descriptive Statistics and Qualitative Analysis

Growth of Small and Medium Enterprises

The findings of descriptive statistics on growth of the SMEs were determined and summarized as indicated in Table 2.

Table 2: Growth of Small and Medium Enterprises

Statements	Mean	Std. Dev
This firm has grown its market share since inception.	3.51	1.120
There is increase of firm profitability.	3.57	1.010
The firm has expanded in terms of branches.	3.87	.962
There is evidence that firm has grown its sales revenue.	3.64	.963
Average	3.65	1.014

From Table 2, the value of average is given as (M=3.65), this implies that respondents agreed that they firms were experiencing growth. This growth was in terms of branch networks (M=3.87), sales revenues (M=3.64), profitability (M=3.57) as well as market share (M=3.51). These findings are corroborated by the responses obtained from an interview guide. The respondents shared that although their firms had reported a growth in revenues generated, the COVID-19

pandemic has been a major hurdle interfering with business operations. In terms of the branch networks, it emerged from the interview that most of the firms had at least one branch. This contributed towards creation of employment and the overall growth of the economy of Somalia in general. As to whether profitability of the firms had grown, respondents shared that this has been fluctuating specially with the COVID-19 restrictive measures that had adversely impacted on operations. The study noted that there was growth in market share of the studied SMEs. In capturing more market share, the respondent shared that their firm had invested in active sales and marketing efforts. These findings are consistent with Garkaz, et al. (2016) who showed that growth of the Small and Medium Enterprise enables it to increase its market share, expand the customer base, branch network and increase the sales revenues generated.

Differentiation Strategy

Table 3: Differentiation Strategy and Growth of Small and Medium Enterprises.

Statements	Mean	Std. Dev
The products of this firm are differentiated in terms of packaging quantities.	3.94	.886
The products in this firm are priced competitively without compromising on quality.	3.51	.953
The firm provides unique promotion activities for the product offering to the customers.	3.89	.577
The firm provide unique products to its customers relative to other competitors.	3.51	.775
The firm provides warranties to the customers for the products.	3.75	.875
The firm provides after sale services to customers.	3.49	.846
Average	3.68	.819

From Table 3, the value of average is given as (M=3.68), which shows that respondents are in agreement that their companies practiced differentiation strategy. This helped companies differentiate products in terms of packaging quantities. (M=3.94) while providing unique promotion activities for the product offering to the customers (M=3.89). However, respondents expressed neutrality on provision of after sale services to customers (M=3.49). Tuva (2015) showed that unlike service differentiation, product differentiation has a greatest contribution towards performance of water bottling entities.

Regression Results

Differentiation strategy were regressed against SMEs growth and the findings were established and summarized as indicated in Table 4.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.725 ^a	.525	.496	1.53430

From Table 4, the value of R-square is given as .525, this means that 52.5% change in growth of the SMEs in Yagshid district Somalia is explained by the differentiation strategy adopted. The regression results further show a value of coefficient of determination (adjusted R Square) AS 0.496. Thus, there are other factors aside from differentiation strategy that have an effect on growth of these SMEs and this deserves further analysis.

Table 5 is a summary of the beta coefficients and the significance.

Table 5: Beta Coefficients and the Significance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	6.519	2.311		2.821	.007
Differentiation Strategy	.333	.068	.048	4.897	.031

From Table 5, the following is the resultant predicted model between generics strategies and SMEs growth.

$$Y = 6.519 + .333X_1$$

Where;

Y = Growth of SMEs

X₁ = Differentiation strategy

At 5% level of significance, the study established that differentiation strategy ($\beta = .333$, $P < 0.05$) also had significant effect on growth of SMEs in Yagshid district Somalia. It can also be summed up that growth of the firm require adoption of differentiation strategy. This assertion is supported by Garkaz et al. (2016) who observed that in order to survive, enhance the market share and generate more profits, firms need to embrace differentiation strategy.

V. CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Differentiation strategy had been implemented as one of the generic strategies by the SMEs in Yagshid district Somalia. There was differentiation of products in terms of packaging and provision of unique promotion activities among the SMEs in Yagshid district Somalia. The implementation of

differentiation strategy had significantly contributed towards growth of the SMEs in Yagshid district Somalia.

Recommendations for Practice

The managers of the SMEs in Yagshid district Somalia should improve on Various forms of differentiation e.g pricing, quality, after-sale services features and functionality. Satisfied customers become loyal to the business. The managers of the SMEs operating in Yagshid district Somalia should consider the need to establish specific niches where they can easily serve customers as opposed to the entire markets.

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