

DIFFERENTIATION STRATEGY AS A DETERMINANT OF COMPETITIVE ADVANTAGE AMONG MANUFACTURING SMALL AND MEDIUM ENTERPRISES IN NAIROBI CITY COUNTY, KENYA

BY

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Abstract

Manufacturing small and medium enterprises (SMEs) in Nairobi's Industrial Area operate under rising input costs, aggressive import competition and high rates of business closure, yet Kenyan evidence linking a specific competitive strategy to measurable competitive outcomes in this sector remains scarce. This article examines the effect of differentiation strategy on the competitive advantage of manufacturing SMEs in Nairobi City County. Anchored on Porter's generic strategies framework and interpreted through the resource-based view and dynamic capabilities theory, the study adopted a quantitative cross-sectional correlational design and a census of the 66 manufacturing SMEs registered with the Kenya Association of Manufacturers and operating within the Industrial Area. Structured questionnaires using five-point Likert items were administered to owners and senior managers between July and August 2025, and 58 usable responses were returned, a response rate of 87.88%. Data were analysed in SPSS version 27.0 using descriptive statistics, Pearson product-moment correlation and multiple linear regression, with differentiation estimated simultaneously with cost leadership and focus strategy so that its effect is net of the other two. Differentiation was strongly adopted (composite $M = 4.20$, $SD = 0.85$) and was strongly and significantly associated with competitive advantage ($r = 0.781$, $p < 0.01$). Within the regression model it retained a positive and significant effect ($B = 0.741$, $\beta = 0.646$, $t = 3.140$, $p = 0.003$) and recorded the largest standardised coefficient of the three strategies, which jointly explained 79.0% of the variance in competitive advantage ($R^2 = 0.790$, $F(3, 54) = 21.015$, $p < 0.001$). The null hypothesis was therefore rejected. Adoption is strongest in low-cost, adaptive practices such as customer-responsive packaging and benchmarking, and weakest in genuine exclusivity, suggesting that firms should invest in less easily imitated forms of differentiation and that policy support should target product innovation capacity.

Keywords: Differentiation strategy; competitive advantage; Porter's generic strategies; manufacturing SMEs; resource-based view; Nairobi City County

Introduction

Competitive advantage denotes a firm's capacity to outperform rivals by delivering value that buyers recognise and competitors cannot easily match, and it is conventionally observed through market share, profitability and customer retention. Porter's (1980, 1985) generic strategies framework, which distinguishes cost leadership, differentiation and focus, remains the dominant lens through which this capacity is analysed, and subsequent work has shown that advantage is most durable where strategic posture is aligned with internal capability and prevailing market conditions (Barney & Hesterly, 2022; Teece, 2021).

Translating that alignment into measurable outcomes is nevertheless difficult for small firms in volatile, resource-constrained markets, and it is in such settings that the relative value of each generic strategy is least well established.

The question matters because small and medium enterprises (SMEs) carry disproportionate economic weight. They account for roughly half of global gross domestic product and between 60% and 70% of employment (OECD, 2023), and in Africa they supply close to 80% of total employment and almost half of output (African Development Bank, 2023). Their strategic latitude is nonetheless narrow: limited

finance, thin technological capability and exposure to larger and better-capitalised rivals restrict the strategies they can credibly pursue (Mazzarol & Reboud, 2020). East African evidence suggests that this constraint shapes strategic choice in a specific direction, with differentiation and niche targeting proving more effective than price-based competition, which is undermined by high operating costs and the absence of scale economies (Mushi, 2024; Wafula, 2023).

Kenyan SMEs contribute approximately 33.8% of gross domestic product and employ more than 14.4 million people (Central Bank of Kenya, 2023). Nairobi City County concentrates much of this activity, and its Industrial Area is the country's principal manufacturing cluster. Firms there contend simultaneously with rising input costs, unreliable supply chains, expensive credit and imported goods priced below locally manufactured equivalents (GeoPoll, 2023). The consequences are severe: the FinAccess micro and small enterprise tracker reports that approximately 46% of SMEs in Nairobi ceased operations between October 2022 and June 2023 (Central Bank of Kenya et al., 2023). Where cost-based competition is foreclosed by imports and scale disadvantage, differentiation becomes the strategic option most plausibly available to these firms, which makes the absence of direct evidence on its returns consequential rather than merely academic.

Strategic management theory predicts that firms adopting coherent competitive strategies achieve superior market share, profitability and customer retention (Barney & Hesterly, 2022), yet Kenyan manufacturing SMEs continue to struggle to convert strategic practice into these outcomes, and structured strategy adoption remains uneven (Otieno, 2023). Existing studies in the region illuminate part of the picture but leave the central question open. Most report general performance indicators such as profitability or sales growth without tying them to a specific strategic choice; most pool manufacturing with retail and service firms, obscuring the distinct competitive pressures of manufacturing; and few treat competitive advantage as the multidimensional construct that theory describes (Karangirwa & Irechukwu, 2021; Wafula, 2023). Fewer still estimate the effect of one generic strategy while holding the others constant, so reported effects may reflect the joint adoption of

complementary practices rather than the strategy under examination. What remains unknown, therefore, is how much of the competitive standing of Nairobi's manufacturing SMEs is attributable to differentiation specifically, once the strategies with which it is routinely combined are accounted for.

Addressing this gap carries value on three fronts. Theoretically, it tests whether a framework refined in advanced industrial economies retains explanatory power in a high-volatility, resource-constrained manufacturing setting, and it does so using a composite measure of competitive advantage spanning market share, profitability and customer retention rather than a single financial indicator. Practically, managers who must ration scarce capital and attention benefit from evidence on which differentiation practices are associated most strongly with competitive outcomes. For policy, manufacturing is a declared national priority, and evidence on the strategic determinants of SME competitiveness informs the design of innovation incentives and enterprise support more precisely than general diagnoses of the sector's difficulties.

This article accordingly examines the effect of differentiation strategy on the competitive advantage of manufacturing SMEs operating within Nairobi's Industrial Area. Its objective is to determine the effect of differentiation strategy on the competitive advantage of manufacturing SMEs in Nairobi City County, and it tests the null hypothesis that differentiation strategy has no statistically significant influence on competitive advantage among these firms. Cost leadership and focus strategy enter the analysis as covariates rather than as objects of inquiry, so that the differentiation effect reported here is estimated net of the other two generic strategies.

Literature Review and Theoretical Foundation

Theoretical Foundation

Porter (1980, 1985) holds that a firm secures advantage by competing either as the lowest-cost producer, by offering something buyers perceive as unique, or by concentrating on a narrow segment. Differentiation works by reducing the salience of price: where an offering carries attributes rivals do not supply, the firm is partially insulated from price competition and can sustain margin and loyalty. Its sources are diverse, including quality, design,

packaging, breadth of range, delivery reliability and brand identity. For manufacturing SMEs the logic is compelling, since small firms rarely command the volume needed to defend a cost leadership position against larger domestic producers or imports, while the capabilities they do possess, namely proximity to customers, short production runs and rapid adaptation, are precisely those on which differentiation depends. Porter's caution that firms straddling strategies risk becoming "stuck in the middle" has been qualified by configurational research documenting viable hybrid postures (Greckhamer & Mossholder, 2021), a qualification that matters here because the firms studied deploy all three strategies concurrently.

The resource-based view supplies the study's primary explanatory foundation. Wernerfelt (1984) and Barney (1991) locate advantage not in industry structure but in resources that are valuable, rare, inimitable and non-substitutable. The distinction is analytically useful for differentiation: a visible product difference is a market-facing outcome, whereas its durability depends on whether the capability that generated it can be copied. SMEs that lack financial and technological depth may still hold such capabilities in the form of local market knowledge, customer relationships, accumulated craft expertise and flexible production, and differentiation is best read as the market-facing expression of that internal position. The theory's known weaknesses are relevant to this setting. Priem and Butler (2001) fault its static premise that resources valuable today remain so, and Kraaijenbrink et al. (2010) note the tautology by which resources are judged valuable because advantage is observed. In a market reshaped by digital distribution, a firm whose differentiation rests on personal customer relationships may find that position eroding.

Dynamic capabilities theory addresses that limitation. Teece et al. (1997) and Teece (2021) describe the capacity to sense opportunity, seize it by reconfiguring resources, and transform the resource base as conditions shift, a capacity for which innovation and agility often substitute for scale in small firms (Dey et al., 2022). Applied to differentiation, the theory supplies a necessary qualification: uniqueness is not established once but defended continuously, since any valued attribute will eventually be imitated and the premium competed away. Benchmarking, iterative product improvement and responsiveness to shifting

requirements are therefore the mechanisms through which a differentiated position is renewed rather than peripheral good practice. The theory presumes managerial and financial slack that constrained firms may lack (Barbosa et al., 2020) and underweights external barriers such as restricted finance and regulatory burden (Fabrizio et al., 2022), but these qualifications bound rather than negate its relevance.

Empirical Evidence and the Research Gap

Empirical work across East Africa converges on a positive association between differentiation and competitive outcomes while diverging on the mechanism through which it operates and the outcome used to capture it. In Kenya, Kamau and Wanyoike (2018) attributed gains in customer retention and profitability among Nairobi hospitality SMEs to distinctive service and value propositions; in Uganda and the wider region, Wafula (2023) linked product innovation, branding and customisation to customer retention and sales growth; in Tanzania, Mushi (2024) found digital branding and tailored offerings associated with improved market share and customer engagement; and in Rwanda, Karangirwa and Irechukwu (2021) reported higher margins and stronger market positioning among firms emphasising product uniqueness and quality. Read together these studies establish that differentiation is viable under resource constraint, but each captures a different slice of the outcome: retention and profitability in one case, market share in another, sales growth in a third. None examines the three simultaneously, and none isolates a manufacturing population within an urban industrial cluster.

Evidence from other economies reinforces the association while exposing the limits of transferability. Patel and Sharma (2023) found innovation-driven differentiation improved market share and loyalty among Indian technology SMEs, Spencer et al. (2016) reported gains in both profitability and market share among Australian manufacturers, and Islami et al. (2020) confirmed that product innovation and customisation translate into measurable advantage across emerging markets. These settings offer stronger institutional support, lower volatility and better technological infrastructure than Nairobi, and differentiation there runs substantially through brand and service, forms that presuppose marketing budgets

and time horizons unavailable to firms managing acute liquidity constraints (Hitt et al., 2020). A measurement limitation also recurs across this literature, acknowledged by Spencer et al. (2016) themselves: competitive advantage is typically operationalised through a single indicator, most often market share or profitability. Since differentiation is theorised to work substantially through loyalty, omitting retention risks understating its effect.

Three gaps follow. Sectorally, recent Kenyan and East African studies pool manufacturing with retail and service enterprises (Mrema & Ndunguru, 2022; Wafula, 2023), although manufacturers face distinct exposure to input costs, supply chain disruption and imported competition, and studies acknowledging sectoral heterogeneity do not isolate manufacturers within urban industrial clusters (Karangirwa & Irechukwu, 2021; Mushi, 2024). Conceptually, competitive advantage is rarely measured as the multidimensional construct theory describes, and single-indicator measures are seldom linked explicitly to a specific strategic choice (Uwimana & Habinshuti, 2021; Wafula, 2023). Methodologically, few studies estimate one generic strategy while statistically controlling for the others, so reported effects may absorb variance properly belonging to complementary practices. The present study responds by censusing manufacturing SMEs within a single industrial cluster, measuring competitive advantage across market share, profitability and customer retention, and estimating differentiation within a model containing cost leadership and focus strategy.

Conceptualisation of the Study Variables

Differentiation strategy, the independent variable, was conceptualised as the extent to which a firm competes on product distinctiveness, and was operationalised through five observable practices drawn from Porter's account and adapted to the manufacturing SME context: packaging products according to customer needs, benchmarking against leading firms in the industry, introducing new products to the market, maintaining a wide product range, and offering products and services that competitors do not provide. Competitive advantage, the dependent variable, was conceptualised as a composite of market share, profitability and customer retention, consistent with contemporary treatments of the construct (Barney &

Hesterly, 2022; Mushi, 2024), and was operationalised through six indicators covering revenue growth, market share growth, cost of service delivery, service quality, customer satisfaction arising from innovative products, and expansion of product range. Both constructs were measured on five-point Likert items and aggregated into composite scores. The relationship is theorised to run from the adoption of differentiation practices to improved competitive outcomes, with the resource-based view accounting for why a differentiated position is defensible and dynamic capabilities theory for how it is renewed. Cost leadership and focus strategy were conceptualised and measured in parallel terms and treated as covariates.

Methodology

The study employed a quantitative cross-sectional correlational design, appropriate because it sought the direction and strength of association between measured variables without manipulating them and makes no claim to experimental control. The population comprised the 66 manufacturing SMEs registered with the Kenya Association of Manufacturers and operating within Nairobi's Industrial Area, identified from an initial scoping list of about 100 firms and filtered by registration between 2021 and 2025, at least two years of continuous operation, and classification as an SME under Kenyan regulatory thresholds. Because the eligible population was small and enumerable, a census was conducted rather than a sample, which removes sampling error (Creswell & Creswell, 2022). One respondent per firm served as the unit of observation: the owner, chief executive or general manager, selected for direct involvement in strategic decisions. Of the 66 questionnaires distributed, 58 were completed and returned, a response rate of 87.88%. Responding firms were predominantly locally owned (93.1%), mostly sole proprietorships (62.1%), and largely mature, with 75.8% having operated for five years or more; 67.2% of respondents reported six to ten years of service in their firm.

Data were collected with a structured questionnaire covering respondent characteristics, firm profile, competitive strategy practices and competitive advantage indicators, with all substantive items measured on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The

instrument was piloted with ten owners of comparable firms who were excluded from the main study; their feedback led to the rewording of ambiguous and double-barrelled items, particularly those addressing customer retention and market share, the merging of overlapping statements and the simplification of instructions. Content validity was established through expert review of item relevance and coverage against the construct definitions, and face validity through pilot participant feedback. Internal consistency exceeded the conventional 0.70 threshold (Hair et al., 2019) for every construct, with Cronbach's alpha of 0.854 for differentiation strategy and 0.871 for competitive advantage, and 0.832 and 0.798 respectively for cost leadership and focus strategy. Questionnaires were delivered to firm premises and collected after an agreed interval between July and August 2025, with follow-up visits and telephone reminders used to raise the response rate. Participation was voluntary and based on written informed consent, responses were anonymised and securely stored, and the research was conducted under NACOSTI research licence NACOSTI/P/25/4179123 (Ref. 155603) and departmental approval from The Catholic University of Eastern Africa.

Analysis was conducted in SPSS version 27.0 in three stages. Means and standard deviations summarised the adoption of differentiation practices and the level of competitive advantage reported; Pearson product-moment correlation established the direction, strength and significance of bivariate associations; and multiple linear regression estimated the effect of differentiation on competitive advantage. The model took the form $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$, where Y is competitive advantage and X_1 , X_2 and X_3 denote differentiation, cost leadership and focus strategy respectively. All three predictors were entered simultaneously by design: because the strategies are moderately intercorrelated in practice, a bivariate estimate of differentiation would absorb variance properly shared

with the other two, whereas simultaneous entry yields a differentiation coefficient net of them. Coefficients for cost leadership and focus are reported for transparency and replication but are not interpreted here. Regression assumptions were verified before interpretation. Residual plots showed no curvature or funnelling, supporting linearity and homoscedasticity; residuals did not depart significantly from normality (Shapiro–Wilk $W = 0.972$, $p = .214$); the Durbin–Watson statistic of 2.01 indicated independence of errors; and variance inflation factors between 2.36 and 2.41, with tolerances of 0.41 to 0.42, confirmed the absence of problematic multicollinearity.

Results

Differentiation was strongly and consistently adopted among the responding firms, with a composite mean of 4.20 (SD = 0.85) on the five-point scale (Table 1). The internal ordering of the five practices is informative. Packaging products according to customer needs recorded both the highest mean ($M = 4.34$) and by some margin the lowest dispersion (SD = 0.51), indicating near-universal practice rather than a point of distinction between firms. Benchmarking against industry leaders followed ($M = 4.28$, SD = 0.89). The two investment-intensive practices, introducing new products ($M = 4.17$, SD = 1.19) and maintaining a wide product range ($M = 4.14$, SD = 1.10), attracted the widest variation, consistent with uneven capacity to fund product development. Offering products competitors do not provide recorded the lowest mean ($M = 4.09$, SD = 0.68), suggesting that genuine exclusivity is the hardest form of differentiation for these firms to achieve. Competitive advantage was likewise rated highly, with a composite mean of 4.24 (SD = 0.88), the strongest indicators being revenue growth over the preceding five years ($M = 4.40$, SD = 0.72) and growth in market share over the same period ($M = 4.26$, SD = 0.78).

Table 1

Descriptive Statistics for Differentiation Strategy Practices (N = 58)

Differentiation practice	M	SD
Products packaged according to customer needs	4.34	0.51
Benchmarking with leading industry firms three times a year	4.28	0.89
Introduction of new products to the market	4.17	1.19
Wide product range maintained to increase market share	4.14	1.10
Products and services not offered by competitors	4.09	0.68
Composite	4.20	0.85

Note. Items measured on a five-point Likert scale (1 = strongly disagree; 5 = strongly agree).

Pearson correlation analysis, reported in Table 2, showed differentiation strategy to be strongly and significantly associated with competitive advantage ($r = 0.781$, $p < 0.01$). Cost leadership ($r = 0.708$, $p < 0.01$) and focus strategy ($r = 0.792$, $p < 0.01$) were also significantly associated with the outcome, and the intercorrelations among the three strategies were moderate, ranging from $r = 0.524$ to $r = 0.583$. That differentiation correlates at $r = 0.552$ with cost leadership and $r = 0.583$ with focus is substantively important rather than merely diagnostic: these firms evidently combine the three strategies in practice, which is precisely why a bivariate estimate of the differentiation effect would be inflated by variance belonging to the others. At the same time, no coefficient approaches the 0.80 threshold conventionally treated as indicative of serious multicollinearity (Hair et al., 2019), confirming that the three constructs are empirically distinct enough to be modelled jointly.

Table 2

Pearson Correlation Matrix (N = 58)

Variable	1	2	3	4
1. Differentiation strategy	1.000			
2. Cost leadership strategy	0.552**	1.000		
3. Focus strategy	0.583**	0.524**	1.000	
4. Competitive advantage	0.781**	0.708**	0.792**	1.000

*Note. ** Correlation is significant at the 0.01 level (two-tailed).*

The regression model was statistically significant, $F(3, 54) = 21.015$, $p < 0.001$, with $R = 0.889$ and $R^2 = 0.790$ (adjusted $R^2 = 0.753$). The three competitive strategies therefore jointly explained 79.0% of the variance in competitive advantage; this figure belongs to the model as a whole and not to differentiation alone. Within that model, differentiation strategy retained a positive and significant effect ($B = 0.741$, $SE = 0.236$, $\beta = 0.646$, $t = 3.140$, $p = 0.003$), indicating that with cost leadership and focus held constant, a one-standard-deviation increase in the adoption of differentiation practices corresponds to a 0.646 standard-deviation increase in competitive advantage. Differentiation recorded the largest standardised coefficient of the three predictors, marginally ahead of focus strategy ($\beta = 0.645$) and clearly ahead of cost leadership ($\beta = 0.526$), although focus was the most precisely estimated predictor ($t = 5.992$, $p < 0.001$). Since $p = 0.003$ falls well below the 0.05 criterion, the null hypothesis that differentiation strategy has no statistically significant influence on competitive advantage among manufacturing SMEs in Nairobi City County is rejected. The effect is best read as a significant positive influence within a multivariate model estimated on cross-sectional data rather than as a demonstration of causation.

Table 3

Multiple Regression Coefficients Predicting Competitive Advantage (N = 58)

Predictor	B	SE	β	t	p
(Constant)	3.936	0.765	—	5.145	< .001
Differentiation strategy	0.741	0.236	0.646	3.140	.003
Cost leadership strategy	0.667	0.215	0.526	3.102	.004
Focus strategy	0.737	0.123	0.645	5.992	< .001

Note. Dependent variable: competitive advantage. $R = 0.889$; $R^2 = 0.790$; adjusted $R^2 = 0.753$; $F(3, 54) = 21.015$, $p < 0.001$. Cost leadership and focus strategy are reported as covariates and are not interpreted in this article.

Discussion

The central finding is that differentiation exerts a positive and statistically significant influence on competitive advantage among manufacturing SMEs in Nairobi's Industrial Area, and that this influence survives the inclusion of the two strategies with which differentiation is most often confounded. The practical significance lies in the ordering as much as in the coefficient. In a market where imported goods exert continuous downward pressure on prices and where small manufacturers lack the volume to defend a cost position, differentiation returning the largest standardised effect is strategically coherent rather than surprising: the firms are rewarded on the dimension where scale confers least advantage. Read alongside the descriptive evidence, the finding also indicates that differentiation among these firms is an embedded operating practice rather than an aspiration, since adoption is high and, on the leading items, remarkably uniform.

The composition of that practice deserves closer reading than the composite mean alone permits. The two most widely adopted practices, customer-responsive packaging and structured benchmarking, are low-cost activities that draw on attentiveness to customers and competitors rather than on capital. The two practices showing the greatest dispersion, new product introduction and range expansion, are precisely those requiring investment that firms under liquidity constraint cannot uniformly sustain. The least strongly rated practice, supplying products competitors do not offer, is the most demanding form of differentiation because it requires genuine exclusivity. The sector thus differentiates capably through adaptation and incremental improvement while finding durable uniqueness harder to reach, a pattern consistent with the resource constraints documented across the SME literature (Mazzarol & Reboud, 2020) and one that qualifies any straightforward reading of a high composite score as evidence of strategic strength. Porter's (1985) framework accounts for the direction of the finding, but the resource-based view explains why the effect is as large as it is. The practices that carry these firms' differentiation are not purchased assets; they are knowledge of customer requirements

and the production flexibility to act on it, which is exactly the kind of internally accumulated, relationally embedded resource that Barney (1991) identifies as a source of advantage precisely because it cannot be acquired on a market. That such firms outperform on this dimension despite lacking the financial and technological depth of larger rivals is consistent with the theory's central claim that the composition of the resource base, not its size, determines competitive position. The demonstration that a framework refined in advanced industrial economies retains explanatory power under acute resource constraint is itself of theoretical interest, since the boundary conditions of both Porter's and Barney's arguments have been tested far more often in high-income settings than in African manufacturing.

Dynamic capabilities theory explains what the resource-based view cannot, namely how a differentiated position is held over time. The prominence of benchmarking, undertaken by these firms several times a year, is a direct empirical instance of the sensing function that Teece et al. (1997) describe: firms are recalibrating against a moving external standard rather than treating differentiation as a position established once. This matters for interpreting the low score on exclusivity. If the differentiation that these firms achieve rests largely on adaptation, it is by construction observable and imitable, and the premium it commands is therefore contingent on continuous renewal. The finding that a strategy so heavily dependent on renewal nonetheless carries the model's largest coefficient lends modest support to the theory's proposition that reconfigurative capacity, rather than resource stock alone, underpins sustained advantage in volatile markets.

The result converges with East African evidence but for identifiable reasons rather than by coincidence. Kamau and Wanyoike (2018), Wafula (2023) and Karangirwa and Irechukwu (2021) each report differentiation gains in settings that share the structural features present here: price-sensitive customers, weak scale economies, and competitive pressure from larger or imported alternatives that leaves distinctiveness as the more defensible ground. That the present study reaches the same conclusion in a different sector and

country, using a composite rather than single-indicator outcome measure, strengthens the inference that the association is a feature of the competitive environment rather than an artefact of any one design. The convergence with Spencer et al. (2016) on Australian manufacturers is more notable still, since it suggests the mechanism is not confined to developing-economy conditions.

Divergence appears in the form differentiation takes rather than in whether it works. Studies in advanced economies report that SMEs differentiate substantially through brand identity, service quality and technology-led innovation (Hitt et al., 2020; Spencer et al., 2016), whereas the firms studied here rely on product-level customisation, range and benchmarking, with brand-building and digital innovation far less prominent. The divergence is contextually rational: brand equity is built through sustained marketing expenditure that returns value over a horizon longer than firms managing month-to-month liquidity can plan for. It nonetheless identifies a strategic vulnerability with a clear theoretical basis. Packaging and range adjustments are visible to competitors and cheap to copy; brand identity and proprietary product knowledge are neither. On the resource-based view's own logic, firms whose differentiation rests on the imitable variety should expect their advantage to decay faster than the coefficient reported here implies, which is an argument for treating the present result as a snapshot of a position requiring active defence rather than as evidence of a settled competitive standing.

Two boundaries on interpretation should be stated plainly. First, the 79.0% of variance explained belongs to the three-strategy model collectively; differentiation carries the largest independent share within it, but the analysis does not establish what differentiation alone would explain. The moderate intercorrelations among the strategies indicate that these firms deploy them in combination, and the practical implication is complementarity rather than substitution. Second, the design is cross-sectional and the measures perceptual, so the results identify a significant association within a regression model and not a demonstrated causal sequence.

Conclusion and Implications

Differentiation strategy is a significant positive determinant of competitive advantage among

manufacturing SMEs in Nairobi's Industrial Area ($B = 0.741$, $\beta = 0.646$, $t = 3.140$, $p = 0.003$), and its effect holds when cost leadership and focus strategy are statistically controlled. With the largest standardised coefficient of the three strategies examined, differentiation is best understood as a first-order strategic lever in this setting rather than one option among interchangeable alternatives, although the three strategies operate jointly and it is their combination, explaining 79.0% of the variance in competitive advantage, that describes how these firms actually compete. Descriptively, differentiation is well established (composite $M = 4.20$) and is enacted mainly through customer-responsive packaging, benchmarking, new product introduction and range expansion, with genuine exclusivity the weakest element.

For managers, the findings support four specific measures. Customer-responsive product development should be formalised, so that the customer feedback these firms already gather informally enters product decisions through a defined process rather than through the proprietor's recollection. Benchmarking, already widespread, should be documented and scheduled so that the intelligence it generates is comparable across cycles and actionable. Product range should be managed deliberately against identified customer segments rather than expanded incrementally, given the wide variation observed on this practice. Most consequentially, firms should begin building the less imitable forms of differentiation, particularly brand identity and proprietary product or process knowledge, at whatever scale their resources permit, since the adaptive practices on which their current position rests are the ones competitors can most readily copy.

For policy, the evidence identifies where support would bind. The dispersion on new product introduction and range expansion indicates that the constraint on differentiation is the financing of product development rather than managerial awareness of its value. Instruments that lower that cost, including tax relief on product development expenditure, matching grants for product design and branding, and subsidised participation in trade fairs where market intelligence is acquired, address the constraint the data identify. The Kenya Association of Manufacturers is well placed to convert the benchmarking already practised by its

members into a structured facility, since the comparative data required for benchmarking is easier to assemble collectively than firm by firm. Procurement policy that recognises differentiated locally manufactured products would strengthen the returns to the strategy this study finds most consequential.

Four limitations qualify these conclusions and point to the corresponding research priorities. The census was confined to firms registered with the Kenya Association of Manufacturers within a single industrial cluster, excluding informal manufacturers whose strategic behaviour may differ and limiting generalisation to other counties and sectors. The cross-sectional design establishes association rather than causation and cannot show how differentiation and competitive advantage co-evolve, a limitation of particular weight given the dynamic capabilities framing adopted here; longitudinal work would address it directly. Reliance on self-reported perceptual data from a single informant per firm raises the possibility of common-method and social desirability bias, which objective indicators such as audited financial and market-share records would mitigate. Finally, the analysis does not test conditions under which differentiation is more or less effective; examining firm age, size, ownership structure and technological capability as moderators would refine the practical guidance the present findings support.

Declarations

Author contributions. Conceptualisation, data collection and analysis were undertaken by the corresponding author; all authors contributed to the design, critical revision and approval of the manuscript.

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Ethics. The study was licensed by the National Commission for Science, Technology and Innovation (licence NACOSTI/P/25/4179123; Ref. 155603) and approved by the relevant departmental authority at The Catholic University of Eastern Africa. All participants gave written informed consent.

Data availability. The dataset analysed is available from the corresponding author on reasonable request.

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