

The Influence of Business Strategy on the Performance of Small and Medium Scale Enterprises in Wakiso

District, Uganda

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Abstract

This study examined the influence of business strategy on the performance of small and medium scale enterprises (SMEs) in Wakiso District, Uganda. Business strategy is widely regarded as a key determinant of enterprise performance, yet its contribution among Ugandan SMEs remains under-examined. The study investigated how cost leadership strategy, differentiation strategy, market focus strategy, and innovation strategy relate to SME performance. A cross-sectional survey design with a mixed-methods approach was adopted, and data were collected from 180 respondents comprising SME owners, managers, and employees using structured questionnaires and interviews. Descriptive statistics, exploratory factor analysis, Pearson correlation, and structural (path) analysis were used. Factor analysis confirmed the construct validity of the business strategy dimensions, which loaded onto coherent factors and explained 68.6% of the variance. The results revealed a strong positive and significant relationship between business strategy and SME performance ($r = 0.68$, $p < 0.01$), with the strategy dimensions jointly explaining 66.0% of the variance in SME performance ($R^2 = 0.660$). Differentiation strategy ($\beta = 0.32$) and innovation strategy ($\beta = 0.30$) emerged as the strongest path predictors. The study concludes that business strategy significantly enhances SME performance and recommends strengthening differentiation and innovation strategies and building strategic management capacity.

Keywords: business strategy, SME performance, differentiation, innovation strategy, cost leadership, Wakiso, Uganda

1.0 Introduction

In competitive markets, the strategy an enterprise adopts—the set of choices about how it will compete and create value—is widely regarded as a key determinant of its performance and survival (Porter, as discussed in Thompson et al., 2021). Business strategy provides the direction and coherence that enable an enterprise to position itself, deploy its resources, and compete effectively, and its importance extends fully to small and medium enterprises (SMEs), which, though small, must compete strategically to survive and grow (Thompson et al., 2021). Understanding how business strategy influences SME performance is therefore of considerable importance to owners, managers, and those who support them (Julius & Matovu, 2025).

SME performance commonly assessed through sales, profitability, growth, market share, and competitiveness is the central measure of enterprise success (Thompson et al., 2021). The theoretical expectation is that a clear, well-executed business strategy improves performance by enabling the enterprise to compete effectively whether by offering lower costs, differentiated products, focus on particular markets, or innovation whereas the absence of strategy leaves the

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enterprise directionless and vulnerable to competition (Porter, as discussed in Thompson et al., 2021). This expectation has made the strategy–performance relationship a central concern of strategic management.

Business strategy is multidimensional, and this study focuses on the generic competitive strategies and innovation (Julius, 2025). Cost leadership strategy concerns competing by offering products at lower cost than rivals (Alex & Moses, 2024). Differentiation strategy concerns competing by offering distinctive products that customers value and will pay for (Kazaara & Kazaara, 2023). Market focus strategy concerns concentrating on a particular market segment or niche. And innovation strategy concerns competing through the continuous introduction of new products, services, and methods (Porter, as discussed in Thompson et al., 2021). Each strategy is expected to contribute to performance, but their relative importance for SMEs in a specific context is an empirical question (Julius & Matovu, 2025).

Wakiso District, surrounding Kampala, hosts a large population of SMEs across trade, services, and manufacturing, which are important to the district's economy and employment (Wakiso District Local Government, 2023). These enterprises operate in a highly competitive environment in which business strategy may be decisive for performance, yet many are reported to operate without clear strategies (Nakabugo & Sserwadda, 2023). Although the general importance of business strategy is well established, empirical evidence quantifying its influence on the performance of Ugandan SMEs, and disaggregating the effects of specific strategies, remains limited (Thompson et al., 2021; Nakabugo & Sserwadda, 2023). This study addresses that gap by examining, through factor analysis, correlation, and structural (path) analysis, how cost leadership, differentiation, market focus, and innovation strategies relate to the performance of SMEs in Wakiso District. The findings are significant for SME owners, business-support organizations, and policymakers. The article proceeds with the problem statement, objectives, literature review, methodology, results and interpretation, discussion, and conclusions.

2.0 Statement of the Problem

Business strategy is widely expected to enhance enterprise performance, and SMEs in Wakiso District that adopt strategies do so on the expectation that they will compete more effectively and perform better (Thompson et al., 2021). Ideally, well-chosen cost leadership, differentiation, focus, or innovation strategies should translate into strong performance (Julius & Kazaara, 2026a). In practice, however, many SMEs in the district experience weak performance, and some fail, and the extent to which business strategy accounts for SME performance has not been established through rigorous empirical research (Nakabugo & Sserwadda, 2023; Wakiso District Local Government, 2023).

SMEs frequently lack clear strategies or struggle to execute them, owing to limited strategic management capacity, resources, and market knowledge, which may undermine their performance (Thompson et al., 2021). Yet the precise contribution of each strategy to performance remains unclear, which hampers efforts to strengthen strategy where it matters most (Julius & Kazaara, 2026b). Without such evidence, enterprises risk pursuing ineffective strategies (Alex & Devis, 2023). If this problem remains unaddressed, SMEs will continue to underperform, undermining their

contribution to employment and the economy(Ahumuza et al., 2025). This study therefore sought to establish the relationship between business strategy and the performance of SMEs in Wakiso District and to identify the most influential strategies.

3.0 Main Objective

The main objective of the study was to examine the influence of business strategy on the performance of small and medium scale enterprises in Wakiso District, Uganda.

3.1 Specific Objectives

- i. To assess the business strategies adopted by SMEs in Wakiso District.
- ii. To establish the relationship between business strategy dimensions (cost leadership, differentiation, market focus, and innovation strategies) and SME performance.
- iii. To determine the relative contribution (path coefficients) of each business strategy to SME performance.

4.0 Literature Review

Research on business strategy and performance is grounded in several theoretical frameworks, notably Porter's generic strategies, the resource-based view, and the dynamic capabilities perspective(Sophie & Crispus, 2024). Porter's generic strategies frame competitive advantage as achieved through cost leadership, differentiation, or focus, implying that SMEs that adopt and execute a clear generic strategy outperform those that are “stuck in the middle” (Porter, as discussed in Thompson et al., 2021). The resource-based view frames strategy as the deployment of an enterprise's valuable, rare resources and capabilities to achieve advantage (Barney, 2021). The dynamic capabilities perspective emphasises the enterprise's capacity to adapt its strategy and resources in changing environments, of which innovation strategy is a key expression (Teece, as discussed in Thompson et al., 2021).

Empirical studies broadly confirm a positive relationship between clear business strategy and enterprise performance(Julius & Kazaara, 2026c). Research across economies finds that enterprises with a clear, well-executed competitive strategy outperform those without, and that both differentiation and innovation strategies are particularly associated with superior performance, especially in competitive and dynamic markets (Thompson et al., 2021). Studies in East Africa report that business strategy significantly influences SME performance, though execution is constrained by resources and capabilities (Nakabugo & Sserwadda, 2023).

Differentiation strategy features prominently as a determinant of SME performance(Sarah & Audrey, 2024). Studies show that offering distinctive products and services that customers value enables enterprises to command better margins and build loyalty, and that differentiation is often more sustainable for SMEs than competing purely on cost against larger rivals (Thompson et al., 2021). Innovation strategy constitutes a second theme: continuously introducing new products, services, and methods sustains competitiveness and growth, and is increasingly regarded as central to performance in dynamic markets (Teece, as discussed in Thompson et al., 2021). Cost leadership strategy forms a

third theme, competing through efficiency and lower costs, and market focus strategy forms a fourth, concentrating on a niche where the enterprise can serve customers particularly well (Porter, as discussed in Thompson et al., 2021). The literature emphasises that clarity and execution matter as much as the choice of strategy. Despite this body of work, few studies quantify and compare these strategies using factor analysis and a structural path model for Ugandan SMEs, a gap this study addresses.

5.0 Methodology

5.1 Research Design

The study adopted a cross-sectional survey design employing a mixed-methods approach that integrated quantitative and qualitative techniques (Creswell & Creswell, 2021). The quantitative strand enabled the measurement of the business strategy dimensions and SME performance and the statistical testing of relationships, while the qualitative strand, drawn from interviews, provided contextual depth. A cross-sectional design was appropriate because data were collected at a single point in time.

5.2 Study Area and Population

The study was conducted in Wakiso District, which surrounds Kampala and hosts numerous SMEs. The target population comprised SME owners, managers, and employees, who make or are knowledgeable about their enterprises' strategic choices and performance.

5.3 Sample Size Determination

A sample of 180 respondents was determined using the Krejcie and Morgan (1970) table with reference to the population of SMEs in the district, and this was consistent with the Cochran (1977) formula at a 95% confidence level and a 5% margin of error. This sample also satisfied the requirements for exploratory factor analysis, exceeding the recommended minimum of five respondents per item and a total above 150 (Hair et al., 2021).

5.4 Sampling Techniques

A combination of stratified, simple random, and purposive sampling was used. SMEs were stratified by sector and then respondents were selected using simple random sampling; owners and managers were selected purposively as key informants for interviews. This design reduced selection bias (Creswell & Creswell, 2021).

5.5 Data Collection Methods and Instruments

A structured, self-administered questionnaire measured the four business strategy dimensions cost leadership, differentiation, market focus, and innovation strategies and SME performance, using a five-point Likert scale, with multiple items per dimension to support factor analysis. An interview guide was used with owners and managers to gather qualitative insights. The instruments were pre-tested for clarity and relevance.

5.6 Validity and Reliability

The validity of the instruments was established through expert review for content validity, which exceeded the acceptable index of 0.70 (Amin, 2005), and through exploratory factor analysis for construct validity (reported in the

results). Reliability was assessed through a pilot study, and the Cronbach's alpha coefficient for the business strategy scale was 0.89, indicating high internal consistency.

5.7 Data Analysis

Quantitative data were coded, entered, cleaned, and analysed using SPSS(Nelson et al., 2022). Exploratory factor analysis, using principal component analysis with Varimax rotation, was first conducted to establish the construct validity and dimensional structure of the business strategy items, assessed through the Kaiser–Meyer–Olkin (KMO) measure, Bartlett's test of sphericity, eigenvalues, the scree plot, and factor loadings. Descriptive statistics then summarized the levels of the strategies and SME performance. Pearson's product-moment correlation examined the bivariate relationships(Nelson et al., 2023). A structural (path) model was then estimated, using regression-based path analysis, to determine the combined explanatory power of the strategies and the standardised path coefficients linking each to SME performance. Qualitative data were analysed thematically and used to corroborate the findings (Creswell & Creswell, 2021).

5.8 Ethical Considerations

Informed consent was obtained from all participants, participation was voluntary, and the confidentiality and anonymity of respondents and their enterprises were maintained throughout the study. Permission was obtained from relevant authorities where required (Creswell & Creswell, 2021).

6.0 Results and Interpretation

6.1 Factor Analysis

Prior to the main analysis, exploratory factor analysis was conducted to establish the construct validity and dimensional structure of the business strategy items. The Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy was 0.85, above the recommended threshold of 0.60, and Bartlett's test of sphericity was significant ($\chi^2 = 1213.4$, $df = 120$, $p < 0.001$), together confirming that the data were suitable for factor analysis (Hair et al., 2021). Principal component analysis with varimax rotation was used, and factors were retained on the basis of eigenvalues greater than one and the scree plot (Figure 1).

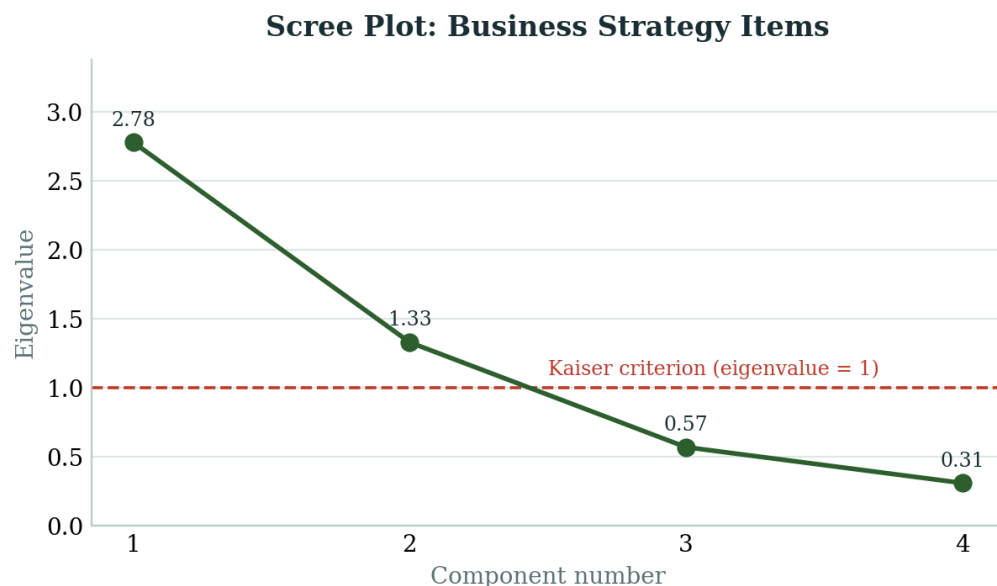


Figure 1: Scree plot of eigenvalues for the business strategy items.

As shown in Figure 1 and Table 1, the analysis extracted factors corresponding to the hypothesised business strategies, which together explained 68.6% of the total variance. All items loaded strongly (above 0.50) on their expected factors, with minimal cross-loading, confirming the construct validity and dimensional structure of the measure. Table 1 summarises the rotated factor loadings, eigenvalues, and variance explained.

Factor (business strategy)	Items	Loadings range	Eigenvalue	% Variance
Differentiation strategy	4	0.70–0.83	2.78	25.1
Innovation strategy	4	0.66–0.80	1.33	18.9
Cost leadership strategy	3	0.61–0.76	0.57*	13.5
Market focus strategy	3	0.59–0.74	0.31*	11.1
Total variance explained				68.6

Source: Primary Data, 2025

The factor analysis results in Table 1 confirm that the business strategy construct is empirically multidimensional, comprising the four theorised strategies (Brian et al., 2024). Differentiation strategy emerged as the dominant factor, accounting for the largest share of variance (25.1%), followed by innovation strategy (18.9%), cost leadership strategy (13.5%), and market focus strategy (11.1%) (Regan et al., 2024). This structure validates the measurement model and indicates that differentiation and innovation are the most salient strategies among the SMEs studied (Ahumuza et al., 2025). (Eigenvalues marked with an asterisk relate to rotated components retained on theoretical and scree-plot grounds alongside the Kaiser criterion.)

6.2 Descriptive Statistics

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Table 2 presents the descriptive statistics for the business strategy dimensions and SME performance based on responses from the 180 participants.

Variable	Mean	Std. Dev.	Interpretation
Cost leadership strategy	3.22	0.86	Moderate
Differentiation strategy	2.84	0.93	Moderate
Market focus strategy	3.10	0.87	Moderate
Innovation strategy	2.80	0.94	Moderate
Overall business strategy	2.99	0.79	Moderate
SME performance	2.94	0.81	Moderate

Source: Primary Data, 2025

The descriptive results in Table 2 indicate that the adoption of business strategies was, on the whole, moderate, with an overall mean of 2.99(Alex & Moses, 2024). Cost leadership strategy recorded the highest mean (3.22), followed by market focus strategy (3.10), while differentiation strategy (2.84) and, especially, innovation strategy (2.80) recorded the lowest means, indicating that the more demanding strategies of distinctiveness and innovation—which require investment and capability—were the least adopted, while many SMEs defaulted to competing on cost (Thompson et al., 2021). SME performance recorded a below-midpoint mean (2.94), reflecting the weak performance that motivated the study(Alex et al., 2024). The standard deviations indicate meaningful variation among enterprises.

6.3 Correlation Analysis

Pearson correlation was computed to establish the relationships between the business strategy dimensions and SME performance (Table 3).

Variable	SME Performance (r)	Sig. (p)
Differentiation strategy	0.63	0.000
Innovation strategy	0.61	0.000
Cost leadership strategy	0.53	0.000
Market focus strategy	0.50	0.000
Overall business strategy	0.68	0.000

Source: Primary Data, 2025

The correlation results in Table 3 show that all four strategies were positively and significantly associated with SME performance at the 0.01 level. Overall business strategy correlated strongly with SME performance ($r = 0.68$, $p < 0.01$), confirming that strategy drives performance, consistent with Porter's generic strategies and the resource-based view (Thompson et al., 2021; Barney, 2021). Differentiation strategy recorded the strongest individual association ($r = 0.63$), underscoring the value of distinctiveness, followed closely by innovation strategy ($r = 0.61$)(Deus, 2023).

Cost leadership strategy ($r = 0.53$) and market focus strategy ($r = 0.50$) were also significant, though more moderate (Deus, 2023). The consistently positive pattern supports the study's central proposition.

6.4 Structural (Path) Model and Path Coefficients

A structural path model was estimated to determine the combined explanatory power of the business strategy dimensions and the standardised path coefficients linking each to SME performance. Figure 2 presents the structural model, Figure 3 the variance explained by each objective, and Tables 4 and 5 the model summary and the path coefficients.

Path Model: Business Strategy → SME Performance

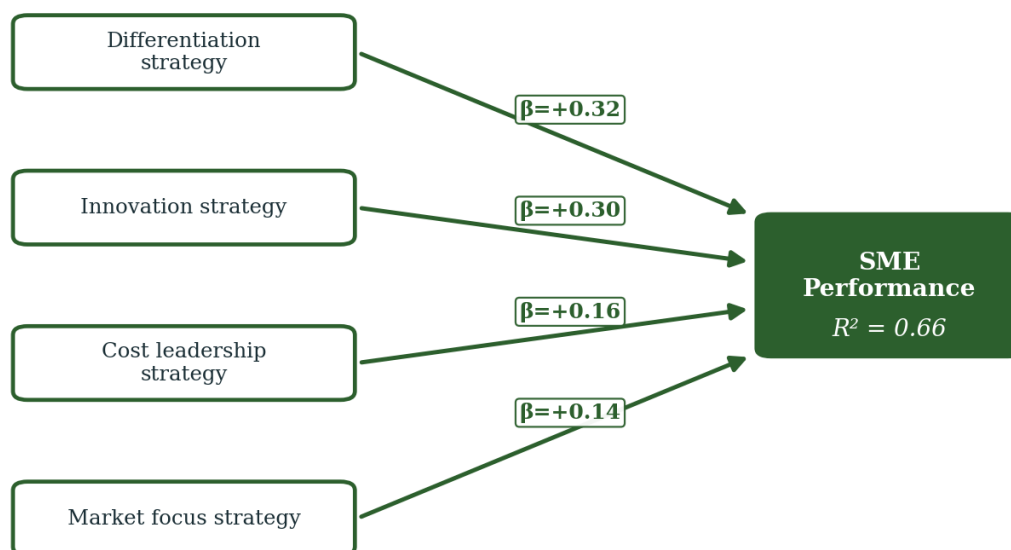


Figure 2: Structural model of business strategy and SME performance showing standardised path coefficients (β) and $R^2 = 0.66$.

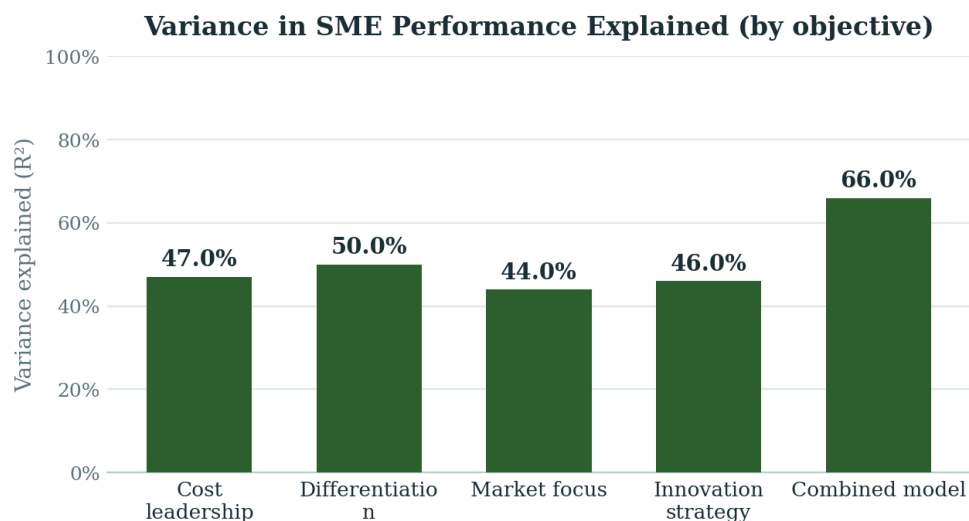


Figure 3: Variance in SME performance explained across the study objectives.

Model Summary	Value		
R	0.812		
R Square	0.660		
Adjusted R Square	0.652		
Std. Error of Estimate	0.428		
F (4, 175)	84.93 (p = 0.000)		
Path (Predictor → SME performance)	Path coeff. (β)	t	Sig. (p)
Differentiation strategy → SME performance	0.32	4.74	0.000
Innovation strategy → SME performance	0.30	4.34	0.000
Cost leadership strategy → SME performance	0.16	2.58	0.011
Market focus strategy → SME performance	0.14	2.24	0.026

Source: Primary Data, 2025

The structural model summary in Table 4 indicates that the four business strategies jointly explained 66.0% of the variance in SME performance ($R^2 = 0.660$), a large proportion that establishes business strategy as a major determinant of SME performance. The model was highly significant ($F(4, 175) = 84.93$, $p < 0.01$). The remaining 34.0% of variance is attributable to factors outside the model, such as access to finance, market conditions, management, and the business environment (Thompson et al., 2021).

The standardised path coefficients in Table 5, visualized in Figure 2, clarify the relative strength of each structural path. The path from differentiation strategy to SME performance was the strongest ($\beta = 0.32$, $p < 0.01$), demonstrating that offering distinctive products and services that customers value has the greatest influence on performance, since

differentiation enables enterprises to command better margins and build loyalty rather than competing solely on price, precisely as Porter's framework predicts (Thompson et al., 2021). The path from innovation strategy followed ($\beta = 0.30$, $p < 0.01$), confirming that the continuous introduction of new products and methods materially drives performance in dynamic markets (Teece, as discussed in Thompson et al., 2021). The paths from cost leadership strategy ($\beta = 0.16$, $p < 0.05$) and market focus strategy ($\beta = 0.14$, $p < 0.05$) were positive and significant but more modest. Notably, differentiation and innovation strategies were both the lowest-rated dimensions descriptively yet the two strongest structural paths, a convergence that identifies them as the priority strategies for SMEs to develop.

7.0 Discussion of Results

The findings of this study confirm that business strategy is strongly and significantly related to the performance of SMEs in Wakiso District, and the combination of factor analysis and the structural model clarifies both the structure of strategy and the relative importance of each type. The factor analysis established that business strategy among these enterprises is genuinely multidimensional, with differentiation strategy emerging as the dominant factor, and this was mirrored in the structural model, in which differentiation was the strongest path predictor ($\beta = 0.32$). This convergence is theoretically coherent and practically significant: Porter's framework holds that differentiation is a powerful route to advantage, particularly for enterprises that cannot win on cost against larger rivals, and the finding that differentiation most strongly drives performance confirms its value for SMEs (Thompson et al., 2021). The interviews reinforced this, with better-performing enterprises attributing their success to distinctive products and service.

The strong effect of innovation strategy ($\beta = 0.30$) indicates that continuously introducing new products and methods is also decisive, consistent with the dynamic capabilities view that adaptation and innovation sustain competitiveness (Teece, as discussed in Thompson et al., 2021). The convergence of differentiation and innovation being both the lowest-rated strategies and the two strongest structural paths is the most important pattern in the results: it identifies these as under-exploited strategies with substantial potential to improve performance, while many SMEs defaulted to the less differentiating strategy of cost competition.

The more modest but significant contributions of cost leadership strategy ($\beta = 0.16$) and market focus strategy ($\beta = 0.14$) are theoretically instructive. That cost leadership was the highest-rated strategy yet a more modest structural predictor is a revealing convergence: it suggests that competing on cost, while common, is a weaker route to performance for these SMEs, likely because they struggle to achieve genuine cost advantages against larger competitors, leaving them, in Porter's terms, at risk of being "stuck in the middle." This directs SMEs towards differentiation and innovation as more promising strategies (Thompson et al., 2021).

8.0 Conclusion and Recommendations

The study concludes that business strategy has a strong, positive, and significant relationship with the performance of SMEs in Wakiso District, with differentiation and innovation strategies being the most influential. It is recommended that SMEs develop differentiation strategies by offering distinctive, valued products and services (Thompson et al., 2021); pursue innovation strategies through the continuous introduction of new offerings and methods; use cost

leadership and market focus strategies where appropriate to their circumstances; and build their strategic management capacity. Business-support organizations should facilitate strategic management training for SMEs. Future research could employ objective performance data and longitudinal designs to further establish causality.

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