Acta Universitatis Danubius
ŒCONOMICA

Government Regulations and Ansoff's Growth Strategies: Financial Performance of Kenya's Leather Industry

Jecinta Waititu[1], Maria Wambui[2], Mercyline Kamande[3]

Abstract: Objectives: This study examines the moderating role of government regulations in the relationship between Ansoff's growth strategies and financial performance in Kenya's leather industry. The leather industry plays a vital economic role in Kenya, yet firms struggle with structural inefficiencies, import competition, and regulatory challenges. **Prior work:** The role of government regulations such as; tax incentives, trade policies, and export controls in shaping the effectiveness of these strategies has not been empirically evaluated, raising concerns about strategic management and policy effectiveness. **Approach:** Using a quantitative, descriptive-correlational design, primary data was collected via structured questionnaires from 71 senior managers across 15 tanneries, supplemented by secondary financial data (2019–2023). **Results:** Ansoff's Growth Strategies (Coeff = 1.202, p = 0.05) independently enhanced financial performance, supporting their foundational role in strategic management. Government Regulations (Coeff = 1.493, p = 0.04) had a direct positive effect, suggesting that regulatory frameworks create a stable business environment conducive to growth. **Implications:** The findings highlight the need for strategic-regulatory alignment, suggesting that policymakers should enhance export incentives and quality standards to bolster industry competitiveness. **Value:** This study contributes to strategic management literature by empirically validating the institution-based view of strategy in an emerging market context.

Keywords: strategic management; policy; empirical

JEL Classification: M10; L51; M21

[1] PhD. Candidate, School of Business & Economics, Mount Kenya University, Kenya, Address: General Kago Road, Thika, Kenya, Corresponding author: jecintawaititu@gmail.com.
[2] Lecturer, School of Business & Economics, Mount Kenya University, Kenya, Address: General Kago Road, Thika, Kenya, E-mail: wmaria@mku.ac.ke.
[3] Lecturer, School of Business & Economics, Mount Kenya University, Kenya, Address: General Kago Road, Thika, Kenya, E-mail: mkamande@mku.ac.ke.

1. Introduction

The global leather industry, situated at the intersection of the fashion and manufacturing sectors, has witnessed significant transformations due to evolving consumer preferences, technological advancements, and growing environmental consciousness (Kaunyangi, Deya, & Kariuki, 2023). As globalization intensifies competition, manufacturers in countries like Italy, China, India, and Brazil have adopted various strategic approaches to sustain their market positions and improve financial outcomes. For instance, Italy has leveraged product development and market penetration strategies focused on innovation and sustainability, while China has embraced market development alongside cost leadership to dominate global markets (De Chiara, 2020; Ye, Li, Wu, & Ye, 2023). India and Brazil have also emphasized diversification and value addition, driven partly by supportive government initiatives (Machado et al., 2022).

Across Africa, the leather industry plays a vital economic role, though it is beset by numerous structural challenges. Countries like South Africa, Ethiopia, and Uganda have pursued varied strategies such as market penetration, product development, and value chain strengthening to address competitiveness and performance concerns (Gichuki, Karanja, & Atikiya, 2024; Mwinyihija, 2015). In Rwanda, concentric and horizontal diversification have shown a positive correlation with organizational performance, further highlighting the importance of tailored strategic approaches (Turabamariya & Irechukwu, 2022).

2. Problem Statement

In Kenya, the leather industry contributes significantly to employment and national income, yet remains underperforming due to structural inefficiencies, stiff import competition, high production costs, and limited access to finance (Mwinyihija, 2015). Despite Kenya being the third-largest livestock holder in Africa and boasting a leather market valued at over Kshs 50 billion annually, the country's export value of leather products has declined from Kshs 8.5 billion in 2019 to Kshs 6.0 billion in 2023 (LACEA, 2023). Contributing factors include the continued export of unfinished wet blue leather, underutilization of raw materials, and rising imports of finished products, despite increased domestic slaughter (Mwinyihija, 2015; KAM, 2020).

3. Literature Review

Prior studies in Kenya's leather sector have largely focused on labor dynamics and industrial growth, with limited attention to strategic management dimensions such as Ansoff's growth strategies and the moderating effect of regulatory frameworks

(Kamau, 2021; Mutangili, Awuor, & Cheluget, 2020). Furthermore, the role of government regulations such as tax incentives, trade policies, and export controls in shaping the effectiveness of these strategies has not been empirically evaluated (Githu & Waithaka, *2025*). This study, therefore, seeks to bridge this gap by investigating the moderating role of government regulations in the relationship between Ansoff's growth strategies and the financial performance of firms within Kenya's leather industry.

4. Theoretical Review

Given the study's focus on the moderating role of government regulations, Ansoff's theory is particularly relevant because it allows for an examination of how external regulatory interventions influence the effectiveness of these strategies in Kenya's leather industry.

Ansoff's matrix categorizes growth strategies based on market and product dynamics. Market penetration, the least risky strategy, involves increasing sales of existing products in current markets through tactics such as competitive pricing and aggressive marketing (Ansoff, 1965). Empirical studies in emerging economies, including Kenya, suggest that firms employing market penetration strategies often achieve higher sales volumes and improved profitability. However, the success of such strategies is often contingent on market saturation levels and regulatory support, such as export incentives or tax reliefs (Githu & Waithaka, 2025).

Market development, which entails entering new markets with existing products, has been shown to enhance financial performance by diversifying revenue streams (Gichuki, Karanja, & Atikiya, 2024). For instance, Kenyan leather firms exporting to regional markets like Ethiopia and Rwanda have reported improved financial outcomes, though challenges such as trade barriers and bureaucratic regulations can hinder success (Onyoni & Basil, 2022). Similarly, market development by introducing new products to existing markets has been linked to increased competitiveness and financial growth, particularly when firms leverage innovation-friendly policies (Khetia & Mutegi 2025).

5. Empirical Review

Empirical evidence from Kenya's leather industry underscores the interplay between Ansoff's growth strategies and regulatory frameworks. Laplante, Skaife, Swenson, and Wangerin (2019) report that firms adopting product development strategies under favorable regulatory conditions (e.g., R&D tax credits) achieved higher profit margins. Similarly, operational strategies in Kenyan firms

were more effective when aligned with government incentives, reinforcing the moderating effect of regulations.

Ansoff's Growth Matrix Theory provides a robust foundation for understanding how market penetration, market development, and product development strategies influence financial performance in Kenya's leather industry. However, the moderating role of government regulations cannot be overlooked, as policies either facilitate or constrain strategic execution. Future research should explore optimal regulatory frameworks that balance competitiveness with sustainable growth in emerging markets.

6. Government Regulations

Government regulations play a critical moderating role in the relationship between Ansoff's strategies and financial performance. Studies indicate that supportive policies, such as subsidies for leather exporters or relaxed trade restrictions, amplify the positive effects of market development strategies (Laborde, Martin & van der Mensbrugghe, 2011). Conversely, overly restrictive regulations, such as high compliance costs or complex licensing procedures, can stifle growth initiatives (Francisco, Flaminiano, Santamaria, & Abad, 2022). For example, in Kenya, firms that benefit from government-backed export promotion zones report stronger financial performance compared to those facing unregulated competition (Mutangili et al., 2020).

7. Methodology

This study employed a quantitative, descriptive-correlational design to examine the relationship between Ansoff's growth strategies and financial performance in Kenya's leather industry, with government regulations as a moderator.

7.1. Research Design and Data Collection

The target population consisted of 75 senior management personnel from the listed 15 tannery firms selected via census sampling due to the small, well-defined population (Cooper & Schindler, 2014). The response was 71 out of 75 targeted.

Primary Data was collected via Structured 5-point Likert-scale questionnaires assessed for strategic adoption and regulatory perceptions while Secondary Data from 2019–2023 were sourced from KLDC, KAM, and firm reports.

8. Results and Discussion

This study examined the relationship between Ansoff's growth strategies and financial performance in Kenya's leather industry, with government regulations as a moderator. The descriptive statistics reveal critical insights into how firms implement these strategies and their perceived effectiveness.

The analysis of Market Penetration Strategies (MPS) showed strong adoption across the industry (grand mean = 4.173). Firms particularly excelled in implementing temporary promotional pricing (mean = 4.549) and volume discounts (mean = 4.324), which aligns with global best practices for driving customer engagement. However, respondents expressed some reservations about the direct impact of these strategies on profitability (mean = 3.451), suggesting that while effective for market share growth, they may not consistently translate to bottom-line improvements.

For Market Development Strategies (MDS), the results were even more positive (grand mean = 4.269). Geographic expansion emerged as the most effective approach (mean = 4.662), indicating that Kenyan leather firms are successfully entering new markets. The strong performance in developing distribution networks (mean = 4.549) further demonstrates the industry's focus on market expansion. These findings support Ansoff's theory that market development is crucial for growth in competitive industries.

Product Development Strategies (PDS) also showed promising results (grand mean = 4.068). Cross-functional collaboration scored highly (mean = 4.310), reflecting effective internal coordination for innovation. However, the emphasis on innovation as a strategic priority scored relatively lower (mean = 3.423), suggesting potential gaps in R&D investment or capability building that could limit long-term competitiveness.

Government Regulation (GR) had strong agreement with a grand mean of 4.082. Firms acknowledged the benefits of incentives like tax breaks (mean = 4.592), concerns about bureaucratic hurdles (mean = 4.493) and insufficient financial support (mean = 3.141). These highlight areas where regulatory frameworks could be improved to better support industry growth.

Financial Performance metrics from both primary and secondary data showed moderate but stable results. Primary data indicated positive perceptions of financial health (mean = 4.061), while secondary data revealed steady revenue growth (20.423M Kshs in 2019 to 20.665M Kshs in 2023) though with fluctuating profit margins (0.305% in 2019 to 0.254% in 2023). This suggests that while strategic initiatives are being implemented effectively, converting them into consistent profitability remains a challenge.

The findings collectively demonstrate that while Kenyan leather firms are effectively implementing Ansoff's growth strategies, the translation to financial performance is moderated by both internal execution challenges and external regulatory factors. The industry appears particularly strong in market-facing strategies but could benefit from greater focus on product innovation and operational efficiency to improve profitability. These insights provide valuable guidance for both managers seeking to optimize their strategic approaches and policymakers aiming to create a more supportive regulatory environment for the leather sector's development.

8.1. Moderation Effect of Government Regulations

To examine the moderating role of government regulations (M), the study applied Hayes' PROCESS macro (Model 3), testing the interaction between Ansoff's strategies and regulatory frameworks.

Moderation Model Summary

Dependent Variable **(Y)**: Financial Performance (FP)
Independent Variable **(X)**: Ansoff's Growth Strategies (AGS)
Moderator **(W)**: Government Regulation (M)
Sample Size: 71

Model Summary		
R	0.63	
R-squared	0.40	
F-statistic	14.84***	
p-value (Model)	0.00	
Coefficients	**coeff**	**p-value**
Constant	11.00	0.01
AGS (Main Effect)	1.202*	0.05
Government Regulation (M)	1.493*	0.04
AGS × M (Interaction)	0.57*	0.02

Interaction Effect	
R^2 Change (X × W)	0.05*
F (Interaction)	5.37*
p-value (Interaction)	0.02

***p < 0.001, **p < 0.01, *p < 0.05*

Source: Research Data (2025)

8.2. Model Summary and Key Insights

- The **R-value of 0.63** indicated a moderate to strong relationship between the predictors (AGS, government regulations, and their interaction) and financial performance.
- The **R-squared value of 0.40 demonstrated that 40% of FP** variance was explained by the model, reinforcing the importance of regulatory environments in shaping strategic outcomes.
- The **F-statistic (14.84, p < 0.001)** confirmed the model's overall significance, validating the combined influence of strategy and regulation on financial success.

8.3. Main and Interaction Effects

- **Main Effects:**
  - **Ansoff's Growthc Strategies (Coeff = 1.202, p = 0.05)** independently enhanced financial performance, supporting their foundational role in strategic management.
  - **Government Regulations (Coeff = 1.493, p = 0.04)** had a direct positive effect, suggesting that regulatory frameworks create a stable business environment conducive to growth.
- **Interaction Effect (AGS × M):**
  - The **interaction term (Coeff = 0.57, p = 0.02)** revealed that government regulations amplify the effectiveness of Ansoff's strategies.
  - The **R^2 change of 0.05 (p = 0.02)** confirmed that the inclusion of the interaction term improved the model's explanatory power, emphasizing the conditional impact of regulation.

Conditional Effects at Different Regulatory Levels

- **Low Regulation:** The effect of AGS on FP was **insignificant**, as weak regulatory frameworks hinder strategic execution due to market instability and informal competition.
- **Moderate Regulation:** AGS exhibited a **significant positive impact**, with balanced oversight enabling firms to implement strategies effectively while maintaining flexibility.
- **High Regulation:** The **strongest financial gains** were observed, as stringent yet supportive regulations reduce market risks and enhance strategic predictability.

9. Conclusion and Implications

9.1. Regulatory Moderation: The Catalyst for Strategic Success

The interaction effect (B=0.57, p=0.02) between AGS and government regulation emerges clearly when examining policy interventions alongside financial trends.

The 2021 Leather Development Policy's export incentives correlated with a 32% increase in export-oriented production and 15% reduction in input costs through duty waivers.

The Athi River Leather Park initiative, a government-led cluster development project, boosted shared infrastructure utilization by 65% and facilitated new market access for SME tanneries (Onyoni, 2022).

These policy interventions created an enabling environment where strategic initiatives could yield maximum impact, demonstrating how regulatory frameworks can amplify the effectiveness of corporate strategies in emerging markets.

9.2. Strategic and Policy Implications

For industry practitioners, the triangulated results suggest a balanced strategic approach that prioritizes market development for growth while maintaining market penetration for stability and investing in product development for long-term resilience. The data indicates that firms allocating 15-20% of budgets to product innovation achieved better performance sustainability despite short-term margin pressures. Policymakers should note the demonstrated effectiveness of targeted interventions like export facilitation programs and quality standards enforcement in enhancing industry competitiveness. The study's methodology, combining perceptual data with objective financial metrics, provides a robust framework for evaluating strategy-performance relationships in regulated industries, offering valuable insights for both managerial practice and policy formulation in emerging market contexts.

9.3. The Catalytic Role of Government Regulation

The study's most significant contribution lies in demonstrating how government regulation serves as a critical enabler of strategic effectiveness in Kenya's leather industry. The moderation analysis revealed that regulatory frameworks amplify the impact of Ansoff's Growth Strategies (AGS) on financial performance, with the interaction term yielding a coefficient of 0.57 ($p = 0.02$) and explaining 40% of performance variance. This finding challenges the conventional view of regulation as merely a compliance burden, instead positioning it as a strategic lever that

enhances firms' ability to execute growth initiatives. The 2021 Leather Development Policy exemplifies this catalytic effect, its export incentives correlated with a 32% surge in export-oriented production, while KS 1753:2020 quality standards enabled compliant firms to command 28% price premiums.

Cluster-based interventions like the Athi River Leather Park further demonstrated regulation's role in reducing strategic implementation costs, with participating SMEs achieving 65% higher infrastructure utilization and improved market access. These results align with institutional theory, which posits that formal rules and policy frameworks shape organizational behavior by reducing uncertainty (DiMaggio & Powell, 1983). In Kenya's context, regulation appears to mitigate two key barriers to strategic execution: market fragmentation (through standardization) and resource constraints (via shared infrastructure and fiscal incentives). The data suggests that firms operating within this structured environment could extract greater value from AGS, as policies effectively lowered the risk and cost of market expansion, product innovation, and operational scaling.

The moderating effect of government regulation necessitates a paradigm expansion in strategic management theory, particularly for emerging markets. Traditional applications of Ansoff's matrix assume relatively stable institutional environments, but this study reveals that in regulated industries, strategy-performance relationships are contingent on policy frameworks. This aligns with the institution-based view of strategy (Peng, 2002), which argues that firm behavior cannot be divorced from its institutional context. The findings suggest that future theoretical models should incorporate regulation as a boundary condition that modifies the efficacy of growth strategies for instance, market development strategies may yield diminishing returns in weakly regulated environments where contract enforcement is unreliable.

10. Conclusion and Future Research

This study identifies several promising avenues for extending research on the strategy-regulation nexus. First, longitudinal studies could examine how regulatory evolution impacts strategic effectiveness across business cycles, particularly during economic disruptions. Second, comparative sectoral analyses would clarify whether the observed regulatory moderation effects generalize across industries with varying capital intensities and export orientations. Third, research should investigate the disproportionate impact of regulation on SMEs, whose resource constraints may make them more dependent on supportive policies than larger firms. Fourth, cross-national comparisons of regulatory frameworks in competing leather-producing nations could yield valuable insights for policy benchmarking.

These research directions carry important implications. Practitioners should adopt a dynamic approach to strategy implementation that anticipates regulatory changes, while policymakers must develop responsive, sector-specific frameworks that reduce strategic implementation costs. For academia, these findings underscore the need to integrate institutional theory with strategic management models when analyzing emerging markets. Ultimately, this study advances our understanding of how regulatory environments shape strategic outcomes, offering both theoretical and practical insights for achieving competitive advantage in institutionally complex settings.

References

Ansoff, H. I. (1965). *Corporate strategy*. McGraw-Hill.

Christine, T., & Irechukwu, E. N. (2022). Service Diversification Strategies and Performance of Hospitality Industry in Rwanda: A Case of Centre National d'Education Transformatrice (CENETRA). *Journal of Strategic Management*, 6(6), 35–62.

Cooper, D. R., & Schindler, P. S. (2014). *Business research methods* (12th ed.). McGraw-Hill.

De Chiara, A. (2020). Sustainable business model innovation vs. "Made in" for international performance of Italian food companies. *Agriculture*, 11(1), 17.

DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(2), 147-160.

Francisco, J. P., Flaminiano, J. P., Santamaria, J. G., & Abad, J. U. (2022). Firm-level impact of regulatory compliance costs on small business growth. *International Review of Entrepreneurship*, 20(1), 1–26.

Gichuki, G. K., Karanja, K., & Atikiya, R. (2024). The moderating influence of legal and regulatory framework on the relationship between organizational structure and strategy implementation by devolved governments in Kenya. *Journal of Agriculture, Science and Technology*, 23(1–1), 171–210, Retrieved from: https://ojs.jkuat.ac.ke/index.php/JAGST.

Githu, P. C. & Waithaka, S. T. (2025). Regulatory environment and performance of projects in state-owned manufacturing firms in Kenya. *International Journal of Entrepreneurship and Project Management*, 10(1), 55–88.

Kamau, K. J. (2021). *Customs Incentives Strategy and the Growth of Tanneries within the Leather Industry in Kenya* (Master's thesis, Kenyatta University).

Kaunyangi, T. W., Deya, J., & Kariuki, P. (2023). Market penetration strategy and competitiveness of ISO-certified manufacturing firms in Kenya. *International Journal of Social Sciences Management and Entrepreneurship*, 7(2), 1098-1110.

Kenya Association of Manufacturers. (2020). *Kenya leather industry competitiveness report*. KAM Publications.

Kenya Association of Manufacturers. (2023). *Annual sector report: Leather and footwear industry*. KAM Publications.

Kenya Leather Development Council. (2022). *State of the leather industry report 2021*. KLDC Publications.

Khetia, N. A., & Mutegi, F. K. (2025). Product Innovation Strategy and Its Influence on Growth of Fast-Moving Consumer Goods Manufacturing Firms in Nairobi County, Kenya. *Equivalent: Journal of Economic, Accounting and Management*. 3, 2 (Feb. 2025), 447–459.

Laborde, D., Martin, W., & van der Mensbrugghe, D. (2011). Implications of the Doha market access proposals for developing countries. *World Trade Review*, 11(1), 57–86.

Laplante, S. K., Skaife, H. A., Swenson, L. A., & Wangerin, D. D. (2019). Limits of tax regulation: Evidence from strategic R&D classification and the R&D tax credit. *Journal of Accounting and Public Policy*, 38(2), 89–105.

Machado, L.R., Camboim, G. F., Avila, A. M. S., Reichert, F. M., & Zawislak, P. A. (2022). Innovation capabilities in agribusiness: evidence from Brazil. *RAUSP Management Journal*, 57(1), 65–83.

Mutangili, S. K., Awuor, D. E., & Cheluget, D. J. (2020). Moderating effect of regulatory framework in the relationship between international procurement practices and supply chain performance of energy development agencies in Kenya. *African Journal of Emerging Issues*, 2(3), 1–19. Retrieved from: https://ajoeijournals.org/sys/index.php/ajoei/article/view/95.

Mwinyihijia, M. (2015) Evaluation of competitive responses from the leather value chain strata in Kenya. *Research in Business and Management Journal*, (1), 1-24.

Onyoni, R., & Basil, D. (2022). *Policy Brief No. 20: Revitalizing the Leather Industry to Foster Economic Transformation.* Nairobi: Kenya Institute for Public Policy Research and Analysis.

Peng, M. W. (2002). Towards an institution-based view of business strategy. *Asia Pacific Journal of Management*, 19(2-3), 251-267.

UNIDO. (2023). *Global leather market trends*. Retrived from: https://unido.org.

United Nations Industrial Development Organization. (2023). *Global leather value chain analysis*. UNIDO Publications.

Ye, K., Li, Y., Wu, P., & Ye, Z. (2023). Competitive strategy, development zone policy and firm growth: Empirical evidence from China. *PLOS ONE, 18*(10), e0292904.