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Competitive Strategies and Performance of Large Manufacturing Firms in Kenya

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Abstract: *The study aimed to test the influence of competitive strategies on performance. A descriptive cross-sectional survey design was adopted. The target population was large scale manufacturing firms in Kenya. Structured questionnaire was emailed to senior managers in a sample of 139 firms spread across 13 sub-sectors. A response rate of 75 questionnaires which represent 54% was obtained. Data obtained were analyzed using descriptive statistics and linear regression. Descriptive results indicate that differentiation strategy was displayed through high quality products, brand reputation management, distinctive products. Cost leadership strategy was also a key competitive pathway to performance in the large manufacturing sector. Focus strategy contributes a significant contribution to the performance of large manufacturing firms in Kenya. Results of regression analysis indicated that competitive strategies significantly influenced performance of large manufacturing firms. The study concludes that adopting a combination of cost based strategies and differentiation was more beneficial to firm performance as opposed to solo adoption of either strategy.*

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I. Introduction

The performance of organizations is a key concern in strategic management practice and research. Organizational performance is an outcome of several factors key among them being competition in the industry. Therefore, a vivid understanding of the competitive environment is a necessary process before formulation of performance management strategy. In the current era of globalization, firms are exposed to competition irrespective of nature of industry, size of the firm, product and market combinations. Several firms deal with declining market share while others stare at the possibility of being forced out of the market by the more competitive rival firms. Intensity of competition in some industries has driven firms to pursue market relevance and survival through continuous adaptation, re-configuration of products and re-creation of organizational capabilities. Due to the dynamism in the business environment, it is important that firms monitor their environment with a view to creating strategies that will make them unique in the eyes of customers.

Competitive strategies are moves and approaches that firms possess and actions they take to attract buyers and withstand competitive pressure so that they gain a competitive advantage (Thompson & Strickland, 2008). Porter (2008) argues that strategy is what yields competitive advantage in a company, and identifies cost leadership, differentiation, and focus as three bases in which a company can gain such an advantage. Cost leadership strategy demand for efficient use of facilities and an aggressive structure. This strategy aims at reduction and control of costs without compromising quality, service and other areas and not moving away from customer expectations.

Johnson, Scholes and Wittington (2009) on the other hand, perceive competitive strategies from a business level perspective and believe that it is the achievement of competitive advantage by a business unit in its particular market. A Competitive Strategy according to Olsen, Slater and Hult (2008) is where a firm’s products and services bring together unique resources and capabilities to gain competitive advantage in the marketplace. Miles and Snow (1978) assert that the policies which organization adopts towards the environment could be placed into four generic categories of defender, prospector, analyzer and reactor. The choice of a competitive strategy is therefore critical for the survival of the firm. In any organization, success or survival depends on how well the competitive strategies have been formulated and implemented for competitive advantage. According to Porter (1980) a firm is able to defend itself in a given industry by using a competitive strategy. A strategy, therefore, should be based on a firm’s unique and individual advantages, capabilities, and circumstances, in order to outperform competitors.

Competitive strategies have been associated with performance over the last three decades. Kim and Lim (1988) examining competitive strategies in Korea reported that firms without a strategy performed worse than those with competitive strategy. O'Farrell et al. (1993) established that firms without clear-cut strategy were weaker performers compared to their counterparts who adopted broad-based or more focused differentiation strategy. While the impact of strategy on performance is not contested, researchers contemplate on the varying contributory strength of the various types of competitive strategy on performance. Inconsistent evidence abounds in extant literature relating to strategy typologies and their relative influence on performance. While some authors convincingly argue that differentiation is a superior contributor to organizational performance than cost strategy, opponents counter explaining that the latter strategy is a value creator and consequently a super performance contributor. Whereas Hambrick (1983) found that profitable firms adopted either cost or differentiated strategies, Allen and Helms (2006) found that hospitals that followed cost leadership strategy registered superior performance. On their part, Banker, Mashruwala, Tripathy (2014) using archival data spanning for a period of 14 years demonstrated that differentiation strategy leads to sustainable financial performance, compared to a cost leadership strategy. Powers and Hahn (2004) adduce evidence demonstrating the relationship between competitive strategy and performance. Using data from the finance industry, they maintain that organizations pursuing cost leadership strategy realized statistically significant performance as compared to banks that were highly differentiated or focused on specific market segments. Nevertheless, differentiation strategy comes with higher cost and exposes the firm to high risk. Whereas cost strategy can contribute to performance by delivering value to customers, it is highly imitable and therefore cannot, in the long-term protect the firm from competition. Nevertheless, the creation of competitive advantage through implementation of strategy can foment market prominence thereby enhancing chances of success by firms in the industry. Therefore, the current study sought to establish the relationship between competitive strategies and performance of large manufacturing firms in Kenya.

II. Literature Review

The study is guided by the industrial organization economics (IOE) theory that emphasizes the link between industry structure in which the firm competes and performance. IEO theory seeks to analyze firms' behavior and try to predict the effects of the changes in the environment, reflecting the Structure Conduct theory. According to Ansoff and McDonnell (1990), the strategic choices adopted by organizations are influenced by the environment that the organization. Therefore firms must respond to the ever changing environment for their survival. The theory avers that competition in the industry affects profitability of firms. Therefore, survival of firms depends on abilities to identify and occupy favorable market position that enables them to shield themselves from aggressive competitive forces (Porter, 1980). Despite its wide acceptance in academia, the IOE theory has been critiqued for its inability to explain large variations of performance within a single industry (Parnell, 2006).

Strategy aims at obtaining a perfect fit between a firm's resource configuration and the marketing environment. Ansoff and Sullivan (1993) argue that to be competitive, a firm must match its strategy to the business environment. Therefore, the choice of strategy in competitive environment is a major concern for managers keen on outsmarting competitors and sustainably improving performance of the firm. In the early 1980s, Porter suggested that generic strategies comprising cost leadership and differentiation were distinguishable pathways to competitive advantage. Holding similar views, Karnani (1984) opines that a superior cost or differentiation position leads to a larger market share, which in turn leads to higher profitability. Tehrani (2003) demonstrates that the relationship between competitive strategy and performance depends on the marketing context.

M. Farid et al. (2013) in an exploratory investigation of Bahrain economy revealed the dominant use of pure and hybrid generic strategies by companies to manage financial performance. Firms using cost leadership strategy base their direct and overhead costs lower than rivals in the industry (Akbolat & Işık, 2012). According to Najib and Kiminami (2011), differentiation strategy seek to obtain a competitive advantage by a firm endeavoring to distinguish from the competition through product offerings or marketing programs. The differentiation strategy typically is supported by heavy investment in research, product or service design, and marketing. Firms trying to implement Porter's differentiation strategy have used many different bases, such as differentiating by types of technology, or the quality of customer services offered. Hsieh and Chen (2011) assert that to match differentiation strategy, the corresponding human resource strategy try to enhance employees' adaptability and innovation.

According to Porter (2008), myriad activities that go into developing and delivering a product are the basic units of competitive advantage. In order to achieve sustainable competitive advantage, firms adopt a strategic positioning through the creation of a unique and valuable position, involving different set of activities. Porter asserts that while maintaining low costs is the main objective, the firm cannot neglect other areas such as quality and service if it wants to succeed. Cost leadership strategy according to Power and Hahn (2004) provided a significant performance advantage. In addition, Allen and Helms (2006) established the significant influence of cost leadership strategy on organizational performance. Overall, cost strategy has been associated with highest average return on assets (Dess & David, 1984).

The differentiation strategy is pursued when a product or service is being remade into something that is perceived as unique within the industry. Through differentiation, the firm can reap higher margins, but may find it difficult to gain a high market share (Porter, 1980). Porter continues to argue that there seems to be a tradeoff between differentiation and cost leadership, as the former is focused on high margins while the latter focuses on high market share. Despite the tradeoff, Porter, (1980) concludes that the firm cannot disregard its costs while pursuing a differentiation strategy. With the focus strategy, the firm is focusing on a specific buyer group, geographic market or segment of the product line (Porter, 1980). The idea is that the firm will channel its focus on serving and meeting the needs of a specific segment and doing this more efficiently than competitors. Through this, the firm can achieve differentiation, lower costs, or both (Porter, 1980). Hence, the focus strategy can be thought of as having three conceptions: differentiation focus, cost focus and the two strategies combined.

Hill (1988) argues that Porter's model is flawed in that it could be possible for a firm to achieve a low cost position through differentiation. Some contexts require the firm to pursue both strategies as there is no low-cost position within the industry. Empirical studies confirm that there are some relationships between strategy and performance measures in various dimensions. They suggest that a performance measurement system have a critical role in translating strategy into action and also has a supporting role in the development of strategies (Kaplan & Norton, 1996). According to Lee et al. (2015) firms gauge their organizational performance using financial and non-financial outcomes in relative to certain aspects they employ of quality and operations. From the foregoing debate, we tested the following hypothesis:

H_1: Competitive strategies have significant influence on performance of large manufacturing firms

III. Methodology

The study entailed testing the postulations of industrial organization economics theory and was guided by the positivist paradigm. The descriptive cross-sectional survey design was adopted. The target population was large manufacturing firms that were members of the Kenya Association of Manufacturers (KAM). Large manufacturing firms were identified using the manufacturer categories developed by KAM based on number of employees that are engaged by the firm on long term employment contract. The population was spread across diverse industries where majority of the firms were dealing with food, beverages, tobacco, chemical & allied products. The sample frame comprised 655 firms in 13 sub-sectors of the manufacturing sector. The sub-sectors from which the population was drawn consisted of building, mining & construction, chemical, food & beverages, timber, wood & furniture, leather & footwear, chemical and allied, motor vehicles & accessories, paper & board, pharmaceutical & medical equipment, plastics, rubber and textiles. Stratified random sampling was used to select firms for the study. The sub-sectors formed the basis of stratification. Stratification was chosen as a sampling strategy to ensure representation of the sub-sectors. Saunders et al. (2007) argue that stratification provides a better comparison across strata hence reducing standard error and provision of some control over variance. Simple random sampling technique was used to select the units of observation in each stratum. Sample size was determined using the approach recommended by Kate (2006). On this basis, 139 firms were sampled for the study. The sample size represents more than 20% of the accessible population that is generally recommended by social researchers required for statistical data analysis (Orodho, 2005).

A structured questionnaire was used to collect primary data. The questionnaire was developed using established scales from the previous studies (Dess & Devis, 1984; Awino, 2011; Machuki & Aosa, 2011). Likert-type rating scale was used to measure competitive strategy and firm performance. The questionnaire was circulated to senior managers of large manufacturing firms. Five response choices representing the respondent's degree of agreement were provided for every question item. To ensure validity of the instrument, the questionnaire was pilot-tested using five firms. Validity was tested through exploratory factor analysis (EFA) after the pretest. Reliability was tested through internal consistency technique by computing Cronbach's alpha. Bryman and Bell (2011), acknowledges that Cronbach's alpha indicates the average of all possible split-half reliability coefficients. Cronbach's alpha 0.5 and above was considered acceptable for reliability (George & Mallery, 2003).

Before testing our hypothesis, we subjected the data to tests for the assumptions of linear regression analysis. The diagnostic tests carried out on the data include linearity, normality, multicollinearity and homoscedasticity. The results of diagnostic tests confirmed that our data conformed to the assumptions of linear regression analysis. Therefore, we proceeded with hypothesis testing. Simple regression analysis was used to test the influence of competitive strategies on performance of the large manufacturing firms. The regression model tested was in the form of:

Firm performance = $\beta_0 + \beta_1$Competitive strategies + ε

IV. Results

4.1 Descriptive results

Data analyzed was obtained from 75 manufacturing firms out of the targeted 139, translating to a response rate of 52%. Six of the questionnaires returned were not complete. Therefore, data from 72 firms were analyzed. Descriptive results indicate that differentiation strategy was displayed through high quality products, brand reputation management, distinctive products. Cost leadership strategy was not competitive pathway to performance in the large manufacturing sector. Majority of the firms did not compete based on price partly due to its detrimental effect on margins particularly where competition is intense. The performance of firms within the industry was gauged as moderately strong with demonstrated evidence of customer satisfaction.

Results of factor analysis showed uni-dimensionality of competitive strategies with explained variation of 85%. Eight factors were extracted for competitive strategies. Factor one comprising the items 'provision of products with many features', 'services shielding firms from competition' and, 'products are customized to the unique requirements of customers' are reflections of how a firm forms harmony between product/service and the customer,. The factor was assigned the label "Brand Resonance". Seven items loaded strongly on factor two namely: 'management discouraging waste of resources', 'encouraging recycling of wastes', 'strict product quality control procedures', 'consistently monitoring market trends and responding to customer needs using uniquely designed products', 'firms emphasizing producing high quality products' and 'employees continuously trained on product and service quality management' mirror customer focus and care for the environment. Consequently the factor two was interpreted to mean "Customer focus strategy".

The third factor describing 'new products development and introduction to the market', 'firm emphasizing on quick delivery and immediate response to customer orders', 'building and maintain brand reputation', 'products rated premium quality by customers' and 'products sold in specialty stores' signify how firms distinguish their products from competition. Therefore, the factor was assigned the label "differentiation". The fourth factor representing items: 'firms emphasizing tight control on expenses', 'firms emphasize producing high quality products', 'products targeting high end market', 'reduction of costs', 'product differentiation and market niche used at the same time in order to compete in the marketplace' were considered a blend of cost and differentiation strategies. Consequently, the factor was interpreted as "cost differentiation strategy." The fifth factor which constituted the items firms 'cutting down operating costs over the years', 'consistently seeking for lower costs of production', 'committed to sourcing raw materials from low cost suppliers' were considered as cost strategy. Hence, the factor was assigned the label "cost strategy".

The sixth factor with the items: 'organization management discouraging wastes of resources', 'innovation encouraged and rewarded by companies', 'company refining existing products/services', and 'employees continuously trained on product and service quality management' were proxies of market excellence. Hence, the factor was assigned the label "customer excellence". The seventh factor with items: 'products priced lower than competitors products', 'companies providing products with many features', and continuous employee training' were interpreted as "Total Quality Management". The eighth factor, with the items: 'emphasis on price competition', and 'large share of our business is based on manufacturer by order' reflect cutting cost and niche marketing. Therefore, the factor was named "Cost Focus Strategy".

4.2 Results of hypothesis testing

The study anticipated a positive influence of competitive strategies on performance of large manufacturing firms in Kenya. The results of regression model summary, analysis of variance and regression coefficients are summarized in Table 1.

Table 1: Regression results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.639[a]	.408	.400	5.38855	.408	48.242	1	70	.000	1.766

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1400.778	1	1400.778	48.242	.000[b]
Residual	2032.555	70	29.037		
Total	3433.333	71			

Coefficients

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		

Constant	-.070	5.498		-.013	.990
Competitive strategies	.643	.093	.639	6.946	.000

a. Predictors: (Constant), Competitive strategies
b. Dependent Variable: Organizational Performance

The results show that competitive strategies had significant influence on performance of large manufacturing firms ($t \leq 0.05$). The regression model fitting the relationship between competitive strategies and performance was significant and robust ($F = 48.24$). We statistically demonstrate that competitive strategies explained 40% of the variation in firm performance (Adjusted $R^2 = 0.400$). The results support our hypothesis indicating that competitive strategies had a significant influence in predicting organizational performance. We proceeded to test the influence of three generic competitive strategies on performance of large manufacturing firms. The results of our sub-hypothesis are reported below.

V. Discussion

The study has shown clearly that firms operate in a dynamic environment (open system) and hence their performance is subject to those changes. As such, competitive strategies and the correspondence desired outcome/ performance depends upon specific capabilities and how the organization adapt to the changes in the environment (Felin & Foss, 2009). Our findings are consistent with Aaby and Slater (1989) who assert that firms which implement generic studies successfully outperform their competitors. In addition, our results support Tan and Litschert (1994) who argue that firms with appropriate strategies responses performed better than those which do not take appropriate responses. The study established that manufacturing firms in Kenya combined both differentiation and cost strategies. Li and Li (2008) found out that firms competing in China with both low-cost and differentiation strategy obtained higher performance than firms competing with just one of the two competitive strategies. Cost and differentiation strategies have long gained prominence in strategic management literature. Our findings support the industrial organization economics theory. Borrowing from Porter (1985), we argue that differentiation and cost leadership each create competitive advantage by delivering value to customers. However, our results are contrary to Acquaah & Agyapong (2015) who reported that cost leadership strategy did not influence performance.

Unlike cost leadership which is scale dependent, differentiation provides distinct customer value by setting the firm's offering apart from competition. Consequently, when carefully crafted and executed diligently, differentiation can create customer loyalty, attract customers and protect market share. Furthermore, differentiation improves firm performance by protecting margins, lowering competitive rivalry and creating sustainable competitive advantage. On the other hand, cost leadership takes time and resources to establish. The success of cost leadership is dependent on management efficiencies, optimum scale economies and raw resource sourcing efficiencies. Cost leadership is feeble as changes in external and task environment environments may expose the firm to rivals. For instance, changes in cost of raw materials and labour can adversely affect delivery of customer value through cost leadership strategy. Cost leadership is grounded on price based competition which reduces profit margins and in extreme cases may lead to losses. Bush and Sinclair (1992) assert that the overall cost strategy was not satisfactory in a mature industry. However, the study revealed that companies that succeeded are those that combined cost leadership with differentiation to create and deliver market value.

VI. Conclusion

The results of the study show that competitive strategies significantly influenced performance of large manufacturing firms in Kenya. The results supported industrial organizational theory and the dynamic capability theory. Manufacturing firms were found to combine strategies to mitigate the changes in the business environment. Cost leadership strategy fits large manufacturing firms due the economies of scale in resource sourcing, operational efficiencies and reduced unit cost of marketing. We conclude that cost based strategies are ideal for large scale firms that enjoy scale economies and production efficiencies. Although cost leadership can positively impact performance, changes in external and internal environment that alters the economy of scale balance renders the strategy vulnerable and may expose the firm to competitive threats. Therefore, we conclude that sustainable performance can be created by combining both cost and differentiation economies. We further conclude that generic strategies are not in competition, but complement each other to create and deliver customer value. It is the market value created by these strategies that influences performance of the firm. Whereas cost leadership delivers real customer value, differentiation influences both real and perceived value thereby resulting to favorable consumer purchase behaviour.

VII. Implications

The findings have implications for managers particularly with respect to decision making and scale of operations. First, managers need to evaluate the implications of their decisions in light of cost management, product quality and customer value. Large manufacturing are encouraged to develop competitive strategies in relation to the changes in the external environment (Busch, 2011). This allows them to utilize their resources better to achieve firm performance. In order to survive in the current economy, large manufacturers must pursue cost leadership and differentiation strategies to improve their performance. With regards to better quality products and services, managers need to utilize research in order to develop differentiation strategies informed by customer value propositions. This in endeavoring to satisfy the customer's needs and wants profitably by producing unique and valuable products.

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