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PORTER'S COMPETITIVE STRATEGIES AND PERFORMANCE OF PUBLIC CORPORATIONS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

Organizations adopt various strategies to create competitive advantage and improve performance. Public corporations in Kenya operate in changed environmental conditions. To survive and succeed in the increasingly competitive environment, the corporations are adopting various strategies. This paper examined the effect of Porter's competitive strategies on performance of public corporations in Nairobi City County, Kenya. This study was guided by the theory of generic competitive strategies. The study adopted an explanatory research design. The target population for this study was 133 public corporations in Nairobi City County. A sample of 99 public corporations was used. Primary data was obtained using self-administered questionnaires. Descriptive statistics such as frequencies, percentages, mean score and standard deviation were used to summarize data. Multiple regression analysis was used to test the research hypothesis. The study established that the Public Corporations to a great extent adopted differentiation strategy, low-cost leadership strategy and focus strategy. The study revealed that the three strategies had a positive effect on the performance of the firms. The study concluded that low-cost leadership strategy had the greatest effect on the performance followed by focus strategy while differentiation strategy had the least effect on performance. The study recommends adoption of the competitive strategies to enhance performance of the public corporations.

The study further recommends that public corporations should continue investing and coming up with unique services so that they can differentiate themselves. The corporations may at the same time continue innovating services which will compete with other companies and do aggressive marketing in order to change the perception which the customers have regarding the pricing in order to capture a larger market.

Keywords*: Low-cost leadership strategy, Differentiation strategy, Focus strategy, performance.*

BACKGROUND OF THE STUDY

In today's competitive business environment, competitive strategies play a critical role in enabling organizations meet their goals and objectives. Competitive strategy comprises of all those moves that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position (Kim & Mauborgne, 2014; Thompson & Strickland, 2007). The goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against industry competitive forces or can influence such forces in its favour. Companies pursue competitive strategies to gain competitive advantage that allows them to outperform rivals and achieve above industry average profit. Porter (1980) argues that long-term strategy must be based on a core idea about how a firm can best compete in the market place. Porter proposed three generic competitive strategies that a firm can adopt to outperform other firms in a particular industry. These strategies are called generic because they can be pursued by any type or size of business, even by not-for-profit organizations.

These strategies are also referred to as business strategies since they focus on improving the competitive position of a company's or business unit's products or services within specific industry or market segment that the company or business unit serves. Competitive strategies provide basic direction for strategic actions and a basis for coordinated and sustained efforts towards achieving business objectives. Porter argues that any long-term strategies should derive from a firm's attempt to seek competitive advantage based on one or the three generic strategies: Porter's generic strategies entail the interaction between cost minimization strategies, product differentiation strategies, and market focus strategies (Grant, 2016). Porter argues that to be successful, a company or business unit must achieve at least one of the preceding generic competitive strategies. Various studies have been conducted on Porter's competitive advantage and firm performance. They include Chesire (2015) who established a relationship between Porter's competitive strategies and performance of value-added services by Mobile phone operators in Kenya, Afande (2015) who examined competitive strategies and firm performance in the mobile telecommunication service industry using a case of Safaricom Kenya Limited and Kapto and Njeru (2014) who also examined the strategies adopted by mobile phone companies in Kenya to gain competitive advantage. The above studies examined the effect of Porter's competitive strategies in private organizations. These prior studies have not focused on the effect of competitive strategies on performance of public corporations. Therefore, this study sought to examine the effect of Porter's competitive strategies on performance of public corporations in Nairobi City County.

LITERATURE REVIEW

Theoretical Background

This study is guided by the theory of generic competitive strategies. This model was founded by Porter in 1998. A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus (Porter, 1980). The focus strategy has two variants; cost focus and differentiation focus. In cost leadership, a firm sets out to become the low-cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low-cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price (Porter, 1985). Mintzberg (1994) argues that the generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments. The theory of generic competitive strategies is relevant to this study because the theory suggests that firms that adopting competitive strategy will achieve competitiveness and improvement in performance in an industry.

Empirical Review

Organizations adopt various strategies to create competitive advantage and improve performance. The strategy of cost-leadership involves the most charming issue (lower price) in emerging economies, offering the product or service to people with low level of disposable income (Muthiani, 2015). Differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the state corporation to charge a premium price for it.

The choice of a competitive strategy is critical for the survival and success of any state corporation. Increased competition threatens the attractiveness of an industry and reduces the profitability of industry players as it exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated actual changes in the environment (Fine, 2010). Literature has shown that there is a strong link between unique advantage and performance of organizations. Competitive edge is able to significantly predict the variance in the performance of the organization.

Hsu (2012) examined effects of competitive strategy, knowledge management and e-business adoption on performance. The study analyzed and measured current business organizations' use of competitive strategy, knowledge management and e-business adoption effect on performance. The results demonstrated: the significant relationship between knowledge management capability and organizational performance, the significant relationship between e-business adoption and organizational performance, the different effect of capabilities of knowledge management and level of e-business adoptions on organizational performance, and a firm with a differentiation strategy and a higher level of e-business adoption creating greater organizational performance. Another study by Duran and Akci (2015) examined the implication of using competitive strategies on the change in firm performance among manufacturing companies quoted in Borsa Istanbul, Turkey. Using regression analysis, the study demonstrated that under the condition of high uncertainty, competitive strategies had a positive and significant firm on performance

Pertusa-Ortega et al (2008) carried out a study on the competitive strategies and firm performance: a comparative analysis of pure, hybrid and 'stuck-in-the-middle' strategies in Spanish firms. The findings show that a large number of the organizations use different types of hybrid strategies and also that such strategies tend to be associated with higher levels of firm performance, particularly those strategies which place emphasis on a greater number of strategic dimensions, and specifically on innovation differentiation. Duran, and Yavuz, (2015) investigated the strategies being implemented by firms in Istanbul as well as its effect on performance. The study focused on the manufacturing firms and after analysis, it was revealed that a number of mix strategies are adopted with no single dominant strategy. However, differentiation was the strategy that appeared to be implemented by almost all the firms.

Kumar et al. (2007) linked generic strategies to performance in the British context. The study specifically sought to analyze the effects of cost leadership, hybrid and differentiation strategy and their respective influence on hospital performance. Through random sampling technique, 98 hospitals were included in the study with managers in top, middle and lower managerial positions were taken as the unit of observation. The study findings revealed that when hospitals follow a focused cost leadership and differentiation strategy, they exhibit higher performance than those following hybrid strategies alone. The study led to conclusions that cost leadership and differentiation strategies have a positive and significant effect on performance of hospitals. Sumer and Bayraktar (2012) examined the influence of cost leadership and differentiation strategies on company performance in Tehran. Using data set extracted from annual statements of companies quoted in Tehran Securities Exchange and applying ordinary least squares (OLS) the relationship was experimentally tested. The findings showed direct association between cost leadership strategy and company performance as measured by return on assets (ROA).

Arasa and Gathanji (2014) investigated a connection between competitive strategies and firm productivity in the telecommunication industry in Kenya with special emphasis on Safaricom Limited. The main objective of the study was to investigate the influence of competitive strategies on firm performance in the telecommunication industry. Using descriptive design with semi-structured questionnaire on 354 staff members, both correlation and regression analysis of collected data revealed a strong association between the competitive strategies and performance of a company. Hilman and Kaliappen (2014) examined the impact of cost leadership and innovation on productivity of Malaysian hotels. Regression analysis showed a strong association amongst cost leadership, innovation as well as firm performance. More importantly, innovation has a significant moderating effect on a company's productivity when it comes to cost leadership.

Karlsson and Tavassoli (2015) carried a study to examine the effect of cost leadership strategies of firms on their future performance, captured by labour productivity. The main study findings indicated that those firms that choose and afford to have a well-defined cost leadership strategy are better off in terms of their future performance compared to those firms that choose not to adopt cost leadership strategies. Moreover, the study results also revealed that not all types of well-defined cost leadership strategies affect the future performance significantly; rather, there are only few of them. Atikiya (2015) on the other hand interrogated the strategies among the manufacturing firms in Kenya. Among the strategies established was market focus strategy. After a survey of the firms licensed by KAM, it was established that there was evidence of market focus strategies since most of the firms such as Unilever had focused on base of the pyramid markets to sell their products and the returns were lucrative.

Baroto, Abdullah and Wan (2012) conducted a study on market focus strategy as a new strategy for competitive advantage in conjunction with other competitive strategies where the study targeted the manufacturing sector in South Africa. The study specifically sought to assess how cost leadership strategy, differentiation strategy and market focus strategies have been implemented by the manufacturing firms and their consequent effects on performance. The study revealed that cost leadership and differentiation strategies were implemented and yielded positive and significant effect on performance. Tuva (2015) studied the influence of differentiation strategy on performance of water bottling companies in Mombasa County, Kenya. The findings of the study showed that there is a positive relationship between differentiation strategy and firm performance. Product differentiation strategy contributes more to the performance of water bottling companies than service differentiation strategy.

A study by Lillestol, Timothy and Goodman (2014) examining the relationship between differentiation strategy and organization performance among Jordanian manufacturing firms revealed that differentiation strategy significantly influenced organizational performance. Nolega, Oloko, Sakataka and Oteki (2015) examined the effect of products differentiation strategy and seed company firm performance in Accra, Ghana. The results revealed that firms pursuing product differentiation set their goal at enhancing customer excess through stressing anticipated product or service benefits which lead to high prices and improved performance. From the literature reviewed, the corporate strategies of a firm are varied, but they are important determinants of firm performance. The studies reveal that the corporate strategies intention is to direct the firm business towards the attainment of its long-term objectives, maintain its current position or achieve high performance as compared to current achievements. Consequently, firms are expected to determine specific competitive strategies that are fit for purpose of enhancing superior performance. In addition, firm corporate strategies fail because they do not adequately analyze firm's strategic resources and capabilities before determining the right strategies in specific market conditions in which the firm operates. The literature has also shown that for cost leadership strategy to be effective, high investment in technology, customer focus, selling a wide range of products, improving employee morale, effective management and good relations with suppliers were all key success factors in actualizing the strategy to ensure a sustainable competitive advantage. Moreover, the literature revealed a high extent of adoption of the generic strategies starting with cost leadership strategies that had a significant improvement on performance.

However, the studies failed to tell whether all the competitive strategies contributed competitive advantage since majority looked at specific ones and not all. These studies also examined the effect of Porter's competitive strategies in private organizations which was different from the current study. Others used different kind of methods for analysis and data collection. Also, literature shows that the studies were done in other countries. These gaps therefore must be filled and therefore presented that need for this study. Given the above theoretical arguments and empirical findings, the following hypothesis was proposed: Competitive strategies have a positive effect on performance.

RESEARCH METHODS

The study adopted explanatory research design. This design was adopted because it describes the cause and effect relationships between variables (Kothari, 2004). The researcher applied this design to examine the effect of competitive strategies on performance of public corporations in Nairobi City County, Kenya. The study also adopted cross sectional survey design in that data was corrected from a sample of public corporations in Kenya over a short period of time. The population of this study comprised public corporations in Kenya. There are 133 public corporations in Nairobi City County, Kenya. A sample of 99 corporations was used in this study. The study used primary data. The data was obtained using self-administered questionnaires. The questionnaire was made up of closed-ended questions. The questionnaires were self-administered. The respondents were Executive officers from the organizations. The drop and pick method was preferred for questionnaire administration since the officers had busy schedules. Since the unit of analysis was the organization, one questionnaire was administered to each of the organizations.

In this study, the independent variable is competitive strategies while the dependent variable is organizational performance. Borrowing from literature, competitive strategies was conceptualized in terms low cost leadership strategy, focus strategy and differentiation strategy (Kim & Mauborgne, 2014). A five-point Likert scale ranging from not at all (1), low extent (2), moderate extent (3), great extent (4) and very great extent (5) was used to collect data. Organizational performance was measured using number of clients/customers, asset base and completion of tasks. A five-point Likert-type scale ranging from 1 = greatly decreased, 2 = decreased, 3 = not changed, 4 = improved, and 5 = greatly improved was used. Descriptive statistics such as frequencies, percentages, mean score and standard deviation were used to summarize the profile of the organization and study variables. Pearson's correlation was used to test the relationship between the Porter's competitive strategies and performance. Multiple regression analysis was used to examine the effect of Porter's competitive strategies on performance. The following multiple regression model was used:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$$

Where: Y = Organizational performance, β_0 = Constant Term, β_1, β_2 and β_3, = Regression coefficients, X_1= Low cost leadership strategy, X_2= Focus strategy, X_3= Differentiation strategy, ε = Error term

RESULTS AND DISCUSSION

Response Rate

Questionnaires administered were 99 out of which only 79 fully filled questionnaires were returned. This gave a response rate of 79.7% which was within what Hussey and Collis (2009) prescribed as a significant response rate for statistical analysis and established at a threshold value of 50%.

Validity and Reliability

Validity was ascertained using experts in strategic management. To assess the reliability of the instrument, Cronbach's alpha coefficient was used. The computed Alpha coefficients were above the threshold of 0.7. Low-cost leadership strategy had a Cronbach Alpha of 0.768, focus strategy 0.886, differentiation strategy 0.702 and performance 0.781. Hence, all the constructs were considered adequate and generally acceptable (Silverman, 2016).

Descriptive Statistics for the Study Variables

The study examined Porter's competitive strategies and performance of public corporations in Nairobi City County, Kenya. The respondents were asked to indicate the extent to which the aspects of Porter's competitive strategies and performance described their organizations. The responses were analyzed using mean scores and standard deviations as shown on Table 1.

Table 1: Mean and Standard Deviation for the Study Variables

Low-Cost Leadership Strategy	**N**	**Mean**	**Std. Dev.**
Reducing operation cost	79	3.886	0.734
Minimizing marketing expenses	79	2.279	0.715
Maximizing the organizations capacity utilization	79	3.810	0.662
Adopting cost cutting technologies	79	2.430	0.634
Minimizing advertising cost	79	4.051	0.959
Mean		**3.291**	
Focus Strategies	**N**	**Mean**	**Std. Dev.**
Market segmentation	79	2.430	0.634
Customer differentiation	79	3.481	0.596
Customer recognition	79	4.076	0.656
Entering new market niche	79	4.152	0.601
Customer relationship management	79	3.620	0.722
Mean		**3.552**	
Differentiation Strategies	**N**	**Mean**	**Std. Dev.**
Product specification	79	2.443	0.797
Promotion activities	79	4.139	0.747
Creative branding	79	3.595	0.777
Unique packaging	79	3.937	0.757
Mean		**3.529**	
Performance of Public Corporations	**N**	**Mean**	**Std. Dev.**
Number of clients/customers	79	4.165	0.669
Asset base	79	3.101	1.033
Completion of task	79	3.772	0.733
Mean		**3.679**	

As per Table 1, the low-cost leadership strategy has an overall mean of 3.291; focus strategy has an overall mean score of 3.552, and differentiation strategies has a mean score of 3.529. Thus, the firms implement the strategies to a great extent. Performance had an overall mean score of 3.679. This implies that the performance of the organizations has greatly increased.

Correlation Analysis

The study examined the relationship between the Porter's competitive strategies and performance. This was done using Pearson's correlation analysis. The results of the correlation analysis are shown in Table 2.

Table 2: Correlation Matrix

		Performance of Public corporations	Low-cost leadership strategy	Focus strategy	Differentiation strategy
Performance of Public corporations	Pearson Correlation	1	.781*	.784*	.817*
	Sig. (2-tailed)		.027	.011	.020
	N	79	79	79	79
Low-cost leadership strategy	Pearson Correlation	.781*	1	.721*	.784*
	Sig. (2-tailed)	.027		.016	.012
	N	79	79	79	79
Focus strategy	Pearson Correlation	.784*	.721*	1	.639*
	Sig. (2-tailed)	.011	.016		.001
	N	79	79	79	79
Differentiation strategy	Pearson Correlation	.817*	.784*	.639*	1
	Sig. (2-tailed)	.020	.012	.001	
	N	79	79	79	79

* Correlation is significant at the 0.05 level (2-tailed).

The correlation results on Table 2 shows a positive significant relationship between performance and low-cost leadership strategy (Pearson's r = 0.781, $p < 0.027$). This finding is in line with Muthiani (2015) who asserts that the cost-leadership strategy describes the most charming issue (lower price) in emerging economies, offering products or services to people with low disposable incomes. Low-cost leadership strategy helps firms to produce the standard, high-volume product or service at the most competitive price to customers. By emphasizing on a low-cost leadership strategy is largely to create higher financial performance for firms competing in emerging economies, as firms can gain a relative advantage because of their lower costs in labor recourse and manufacturing. The result also showed a positive significant relationship between performance and focus strategy (Pearson's r = 0.784, $p < 0.011$). The result concurs with McQuarrie (2014) who stressed that focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements.

Further, the findings revealed that there was a positive significant relationship between performance and differentiation strategy (Pearson's r = 0.817, $p < 0.020$). The finding is in agreement with Keller, Parameswaran and Jacob (2011) who stated that differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. Muthiani (2015) asserts that differentiation focus is a more sustainable competitive strategy due to the inherent difficulty of imitation. According to the study by Muriuki (2013), there is a general positive relationship between competitive strategies and performance of State Corporation. The strength of the relationship was positively strong on differentiation strategies than in focus strategies and cost leadership strategies.

Hypotheses Testing

The study sought to examine the effect competitive strategies on performance. Multiple regression analysis was used to test the hypothesis. Performance was regressed on the dimensions of competitive strategies that is, low-cost leadership, and focus and differentiation strategy. The findings are illustrated in Table 3.

Table 3: Regression Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.856	0.733	0.722	0.776	.176	5.357	3	75	.002

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	126.813	3	42.271	68.46	0.000
	Residual	46.309	75	0.617		
	Total	173.122	78			

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.915	0.116		7.888	.000
Low-cost leadership strategy	0.797	0.243	0.703	3.280	.001
Focus strategy	0.712	0.308	0.621	2.312	.024
Differentiation strategy	0.608	0.202	0.523	3.010	.004

From the study findings in Table 3, the value of R-square is 0.733. This implies that 73.3% of the variation in performance is explained the competitive strategies (low-cost leadership strategy, focus strategy and differentiation strategy). The ANOVA results shows that the regression model was statistically significant ($F = 68.46$, $p < 0.05$). The result of the study shows that low-cost leadership, focus and differentiation strategy jointly have a significant effect on the performance.

Thus, the findings support the hypothesis that competitive strategies have a positive effect on performance. The standardized coefficient shows that the effect of low-cost leadership strategy on performance is positive and significant ($\beta = 0.703$, $t = 3.280$, $p<0.05$); the effect of focus strategy is positive and significant ($\beta = 0.621$, $t = 2.312$, $p < 0.05$). The standardized coefficient shows that the effect of differentiation strategy is positive and significant ($\beta = 0.523$, $t = 3.010$, $p < 0.05$). The findings of this study concur with the findings of a study by Muthiani (2015) who found a positive relationship between differentiation strategy and firm performance; and focus strategy contributes more to the performance of water bottling companies than service differentiation strategy. Muthiani (2015) argued that helps firms to produce the standard, high-volume product or service at the most competitive price to customers. These findings are also in line with McQuarrie (2014) who stressed that focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These findings are also consistent with the findings of Getembe (2012) who found a positive relationship between competitive strategies and performance. The findings also support the findings of Wanyonyi (2011) who opined that organizations adopt different strategies in its efforts to attract and retain corporate customers, namely the competitive strategies and adaptation strategies.

CONCLUSION

The findings of the study demonstrated that competitive strategies have a positive effect on performance. The findings of the study revealed that low-cost leadership strategy has a significant and positive effect on performance. Some of low-cost leadership strategies greatly adopted of public corporations include advertising cost minimization, operation cost reduction and maximizing the organizations capacity utilization. Cost cutting technologies and marketing expenses minimization have been adopted by public corporations lowly. The results also revealed that focus strategy positively and significantly affects performance. Some of focus strategies greatly adopted in public corporations in Nairobi City County are entering new market niche, customer recognition and customer relationship management. In addition, customer differentiation was moderately adopted by public corporations. Differentiation strategy also positively and significantly affects performance. The study concluded that adoption of competitive strategies would lead to improvement in performance of public corporations in Nairobi City County. Therefore, the aspects of Porter’s competitive strategies should be well factored since they affect performance of public corporations.

RECOMMENDATIONS

The study recommends that the management of public corporations in Kenya should adopt competitive strategies to create competitive advantage and improvement in performance. The management of public corporations should also engage more on cost reduction strategies. Low costs will permit a firm to sell relatively standardized products that offer features acceptable to many customers at the lowest competitive price and such low prices will gain competitive advantage and increase market share. The study further recommends that public corporations should continue investing and coming up with unique services so that they can differentiate themselves. The corporations may at the same time continue innovating services which will compete with other companies and do aggressive marketing in order to change the perception which the customers have regarding the pricing in order to capture a larger market. The study finally recommends that management of corporations should develop and maintain innovativeness, creativeness, and organizational learning within a firm to enhance successful differentiation based on a study of buyers’ needs and behavior in order to learn what they consider important and valuable. This will enhance differentiation strategy which will then translate to performance.

CONFLICT OF INTEREST

No conflict of interest was recorded by the scholars.

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