

European Journal of
Business and Strategic Management
(EJBSM)

**INFLUENCE OF COST LEADERSHIP PROCUREMENT
STRATEGY ON PERFORMANCE OF MANUFACTURING
FIRMS IN KENYA**

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Strategy

INFLUENCE OF COST LEADERSHIP PROCUREMENT STRATEGY ON PERFORMANCE OF MANUFACTURING FIRMS IN KENYA

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Abstract

Purpose: The study aims at providing insights on procurement competitive strategies used by manufacturing firms in Kenya to achieve competitiveness and increase their performance.

Methodology: The study will adopt the explanatory research design. The study targeted population of 766 procurement managers from manufacturing firms in Kenya. The Yamane's formula was used to compute a sample size of 264 procurement managers. Stratified, simple random and purposive sampling was used to select respondents. Questionnaire was used to collect primary data. Content validity of the instrument was determined by the researcher using expert judgment. Cronbach's Coefficient Alpha will be used to determine the reliability of the research instrument. The data was coded and entered in the computer for analysis using the Statistical Package for Social Sciences. Pearson Correlation Coefficient was used to determine relationship between cost leadership procurement strategies and firm performance.

Results: The study findings depicted that there was a significant positive relationship between cost leadership and performance of manufacturing firms ($r=0.245$, $p\text{-value}=0.00$). From the regression model, ($R^2 = .053$) shows that cost leadership account for 5.3% variation in performance of manufacturing firms. There was a positive significant relationship between cost leadership and performance of manufacturing firms ($\beta=0.231$ and $p\text{ value}<0.05$).

Unique contribution to theory, practice and policy: The researcher recommends that the manufacturing firms should adopt cost leadership procurement strategy. The manufacturing firms pay attention to cheap sources of raw materials and other value chain management practices that result in reduction of cost.

Keyword: *Cost leadership, procurement strategy, performance, manufacturing firms, Kenya*

1.0 INTRODUCTION

Rowlinson *et al.*, (2009), defines procurement as the “process of obtaining services, goods and equipment in conformity with applicable law and regulations. Wyld (2011) further assert that supply chain management covers all purchasing activities whose intentions is to give the buyer the best price and value for his/her money. Hawkins *et al.*, (2009) is of the opinion that supply chain provides “an opportunity for firms and organizations to contribute to a position of competitive advantage by reducing the price, administrative and the transaction costs associated with purchasing goods and services”. Arrowsmith and Trybus (2003), submit that procurement reforms occur continually in all countries, developed as well as developing countries. Azeem (2007) noted that, supply chain now plays a new role in corporate performance involving value generator, integrator and networking, positioned as a core competency, a driver of competitive strategy, and enabler of additional business.

In modern organizational setting, Pakkala (2002) pointed out that the strategic nature of procurement cannot be overemphasized. Indeed across the world Hunja (2003) notes that in both corporate and governmental procurement, the practice of purchasing has moved from a localized, operational activity to one that is more consolidated and strategic both in nature and practice.

Cost leadership strategy refers to gaining competitive advantage through charging sustainably lower prices than other competitors (Porter, 2001). This will be achieved by reducing costs incurred in production and distribution to lower the general cost of items. In business sectors where there is value control, this is still conceivable through computerization, adaptability and enhanced generation along these lines dispensing with extensive rate of inefficiencies in the creation process. At the point when an organization continues bringing down costs without a reduction in operating costs, it risks it runs the risk of depletion of resources and becoming insolvent particularly in a wildly aggressive competitive market (Woodruff, 2007). This system confronts numerous difficulties in various areas and is just pertinent in specific situations, for example, in the manufacturing where the level of yield is higher when contrasted with the business sector estimate consequently having the capacity to accomplish economies of scale.

Grant (2005) argues that basic to the achievement of Japanese organizations in shopper merchandise commercial ventures, for example, autos, bikes, customer hardware, and musical instruments has been the capacity to accommodate minimal effort with high caliber and mechanical progressiveness. This position is further supplemented by Barney and Hesterley (2006) who assert that few layers in the reporting structure; basic reporting connections, little corporate staff, and concentrate on slender scope of business capacities are components of authoritative structure that permit firms to understand the maximum capacity of cost leadership strategies.

Li and Li (2008) posit that cost leadership may be a cost pioneer yet that does not as a matter of course infer that the organization items would have a low cost. It is important that the organization can for case, charge a normal cost while taking after the ease authority methodology and reinvest the additional benefits into the business Lynch (2003). The danger of taking after the cost leadership strategy, in any case, is that the organization's emphasis on reducing costs even here and there to the detriment of other essential variables might turn out to be dominant to the point that the company loses vision.

A cost leadership strategy may have the disadvantage of lower customer loyalty, as price-sensitive customers will switch once a lower-priced substitute is available. A reputation as a cost leader may also result in a reputation for low quality, which may make it difficult for a firm to rebrand itself or its products if it chooses to shift to a differentiation strategy in future. The firm can choose to compete in the mass market (like Wal-Mart) with a broad scope, or in a defined, focused market segment with a narrow scope. In either case, the basis of competition will still be either cost leadership or differentiation (Amit and Zott 2001).

Competition exists in the manufacturing sector in Kenya due to the high advertising, price wars and frequent product launches experienced. Whilst information sharing is acknowledged to have effect on firm profitability, scanty attention has been paid to it by researchers in Kenya. The current study incorporates information sharing as a moderator to check how manufacturing firms choose their competitive procurement strategies based on the intensity of competition in the market and how that eventually affects their firm performance. The concept of linking competitive strategy and performance was introduced by Barney (2002). Their research brought to the front the concept that what distinguishes performing firms from their competitors was the consistent way in which they construct and maintain this competitive essence. However, the relationship between competitive procurement strategies and organizational performance is a controversial and unresolved matter in the field of strategic management (Pearce *et al.*, 2007). O'Regan *et al.*, (2011) further states that the drivers of firm performance and initiates a continuous competitive advantage at the heart of management despite no consensus reached at what works best. Porter (1980) states that firms should have a clear strategic posture and that firms characterized as stuck-in-the-middle perform poorly unlike those pursuing differentiation and low-cost strategies.

For instance differentiation strategy is best route for e-business to achieve higher performance (Koo, Song, Kim & Nam, 2007) while Baack and Boggs (2008) argue that cost leadership strategy implementation by developed countries multinational companies is rarely effective. This will be the knowledge gap that this research seeks to achieve. Manufacturing refers to the processing of raw materials into a final product by use of large- scale industrial production. Manufacturing firms worldwide are viewed as a catalyst of a healthy and vibrant economy. This is seen as a key to the promotion of entrepreneurial culture and creation of jobs within the economy (Opondo, 2004). High performance of the firms is associated with increased information sharing among the manufacturers and suppliers.

An effective communication leads to supplier integration as well as performance (Lockström *et al.*, 2010). Thus all manufacturing firms should constantly improve communication distribution with their supply base in order to better their performance. Manufacturing firms is also believed to provide an impetus to the economic progress of developing countries as well as gaining widespread recognition. Equally, in Kenya, manufacturing sector makes substantial contribution to the country's economic development (Awino, 2011). The sector has the potential to generate foreign exchange earnings through export and job creation.

Manufacturing firms in Kenya engages in production of a variety of products and services. This constitutes 14 key industrial subsectors as indicated in the Kenya Association of Manufacturers (KAM) 2014 directory. The study utilized a sample representative from all the 14 key industrial

subsectors despite their varied competitive space between them based on the assumption that they operate under similar environment and are confronted with the same challenges. The study hold to the assumption that sub-sectors are all equally expected to contribute collectively to the Gross Domestic Product (GDP) of the country's economy, thus the need to understand their collective competitiveness. Due to its vital role, Kenya's vision 2030 identified manufacturing sector as key drivers for recognizing a sustained annual nation's growth.

Kenya Vision 2030 is the country's new development blueprint aimed at transforming Kenya into a newly industrialized middle income country which is expected to providing a high quality of life to all citizens by the year 2030. According to Bigsten *et al.*, (2010), manufacturing sector has high potential in employment creation and poverty alleviation. Kenya aims to becoming the business hub and the provider of choice for basic manufactured goods in Eastern and Central Africa. This will be achieved through enhanced procurement efficiency and competitiveness at firm levels. The manufacturing sector contributed 8.9 per cent of GDP and provided 12.4 percent of employment in the formal sector in 2013 (Kenya Economic Report, 2014). Although this seems to be a good performance, it is below the 10 per cent contribution target per annum anticipated in the Kenya's vision 2030. The major problem attributed to this is unfair competition emanating from illicit and illegal trade (Kenya manufacturing survey, 2012).

Vision 2030 also acknowledges the vital role played by small and medium enterprises (SMEs) in the economic growth and development of the nation. For instance the SMEs account for 85 per cent of the total number of employees in the manufacturing sector and 47% of the manufacturing firms in 2005 (KIPPRA, 2009). The findings of the 1993 baseline survey also underscored the importance of SMEs in Kenya's development process (Mutai, 2011). The focus on manufacturing sector in Kenya is the role it plays in propelling the economy, with respect to the Vision 2030. This will be significant in supporting the country's social-economic development agenda through the creation of jobs. To meet these goals, manufacturing firms in Kenya require strategy intervention to drastically manage these challenges and achieve superior performance.

Kenya has been experiencing turbulent times with regard to its organizational performances and result in declining profits in the manufacturing sector of the economy (Mutindi, Namusonge & Obwogi, 2013). This affects the manufacturing sector supply chain both upstream and downstream. To cope with these changes, most manufacturing firms have come up with competitive procurement strategies of cost leadership. A number of scholars argues that the pursuit of a single generic strategy may lead to lower performance Kim, Nam and Stimpert (2004), Spanos, Zaralis and Lioukas (2004). The firms in Kenya have to some extent adopted Porter's element of competitive strategies.

Statistics from World Bank show that Kenyan manufacturers of large scale firms have registered declining profits and stagnation for the last five years due to a turbulent operating environment (World Bank, 2014). It is estimated that large manufacturing companies have lost 70% of their market share in East Africa largely attributed to contingencies (Republic of Kenya, 2014). Due to this changing trends many large manufacturing firms have restructure their operations or relocate to areas such as South Africa and Egypt, opting to serve the local market through importation from low cost manufacturing areas, resulting in job losses (Nyabiage & Kapchanga, 2014). The reason for this is attributed to high operating costs and turbulent operating environment. This

showed that many manufacturing firms in Kenya are experiencing organizational performance challenges with many reporting profit warnings due to challenges in the operating environment (Republic of Kenya, 2014).

The manufacturing sector in Kenya is experiencing a major problem of stiff competition emanating from illicit and illegal trade (Kenya manufacturing survey 2012). To drastically manage this challenge and achieve superior performance manufacturing firms in Kenya require strategy intervention. Previous studies have shown that contingent organizational factors are critical drivers to performance of organizations (Brewster & Mayrhofer, 2012). The manufacturing sector in Kenya has a huge untapped potential contribution to GDP and employment if the challenges facing this sector are properly addressed (Wagana & Kabare, 2015). Even though manufacturing firms undertake many initiatives to introduce competitive procurement strategies in order to improve their performance.

Previous studies conducted in Kenya on competitive procurement strategies include; Murage, (2011) who focused on competitive procurement strategies in the petroleum industry. Waiganjo (2013) established the moderating effect of competitive procurement strategies on the relationship between strategic HRM and firm performance. These studies focus mainly on competitive procurement strategies and how they are implemented in various organizations. Therefore, this study sought to determine the relationship between cost competitive procurement strategies and manufacturing firms performance in Kenya.

2.0 THEORETICAL FRAMEWORK

2.1 Porter's Competitive Strategy Typology

Porter's competitive strategy typology was founded by Michael Porter in 1980. Porter states that strategy target either cost leadership, differentiation or focus and that a firm must only choose one of the three strategies or risk waste of precious resources. According to Lu, Shem and Yam (2008), Porter's theory is useful in understanding the competitiveness of organization suggesting that competitive advantage stems from the competitive strategies adopted to deal with strength, weaknesses, opportunities and threats facing an organization. Anupkuma (2005) states that Porter's (1980) strategic theory postulates that to succeed in business a firm needs to adopt generic competitive strategies comprising of cost leadership, differentiation and focus.

The essential premise of above normal gainfulness over the long haul is feasible competitive advantage. There are two fundamental sorts of competitive advantage a firm can have: minimal effort or differentiation. The two fundamental sorts of competitive advantage consolidated with the extent of exercises for which a firm looks to accomplish them, prompts three generic strategies for accomplishing above normal execution in an industry: low cost or differentiation. The focus strategy has two variations, focus and differentiation focus Porter (1980, 1985).

As stretched out by Porter (1985), in cost a leadership, a firm embarks to end up the ease maker in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They might incorporate the quest for economies of scale, restrictive innovation, and special access to crude materials and different elements. An ease maker must discover and endeavor all sources of cost advantage. On the off chance that a firm can accomplish and support

general cost leadership, then it will be an above normal average performer in its industry, if it can charge costs at or close to the business normal. In a differentiation strategy, a firm seeks to be one of a kind in its industry along a few measurements that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as imperative, and extraordinarily positions in it to address those needs.

Similarly, Porter (1985) avers 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. This strategy has two variants, namely; cost focus and differentiation focus. In cost focus, a firm seeks a cost advantage in its target segment, while in differentiation focus a firm looks for differentiation in its target segment. Both variations of the attention procedure lay on contrasts between a focuser's objective portion and different fragments in the industry. The target segments should either have purchasers with bizarre needs or else the generation and conveyance framework that best serves the objective section must vary from that of other industry fragments. Cost focus exploits differences in cost conduct in a few sections, while differentiation focus exploits endeavors the unique needs of buyers in certain segments.

Porter's generic strategies have been broadly acknowledged by researchers. However, his typology also has critics in the literature, especially the assertion that the generic strategies are mutually exclusive. A number of scholars argue the pursuit of a single generic strategy may lead to lower performance Kim, Nam and Stimpert (2004), Spanos, Zaralis and Lioukas (2004). In relation to this study, the manufacturing firms in Kenya have to some extent adopted Porter's element of competitive strategies. However, the findings revealed that majority of the manufacturing firms in Kenya have adopted these strategies simultaneously unlike Porter's assumption of exclusive application of these strategies. Similarly it was notable that most of the manufacturing firms preferred to use differentiation strategy compared to that of cost leadership and focus respectively.

Porter (1981) also examined the linkage between environment and organization performance and discovered that the environment is the primary determinant of organizational performance. According to Ilesanmi (2000), an organization must be in touch with its outer surroundings to be fruitful additional time. There must be a vital fit between what the earth needs and what the firm brings to the table and also what the firm needs and what the environment can provide. Manufacturing firms are vulnerable to changes in their operating environment in many ways and these have great consequences on their operation. As a result of this firms are required to be proactive and able to formulate and adopt appropriate competitive strategies that will enable them to overcome the competitive challenges they experience in the environment they operate in. Competitive strategy helps a firm to gain a competitive edge over its rivals and sustain its success in the market. A firm that does not have appropriate strategies cannot exploit the opportunity available in the market and will automatically fails.

2.2 Resource-based View Theory

The origin of resource based view can be traced back to earlier research of Penrose (1959) among other researchers. The emphasis on this school of thought was on the importance of resources and its implication for the firm performance. This theory simply emphasizes the idea

that an organization must be seen as a bundle of resources and capabilities to create value and gain competitive advantage (Barney, 1991). The resource-based view further posits that firms can achieve overall competitiveness and performance if they possess tangible or intangible resources that are valuable, rare, inimitable and non-substitutable. These four characteristics of resources describe what Barley (2007) considers strategic assets that, if properly mobilized build and sustain a firm's competitive advantage and improve its performance.

According to Barney (1991), enterprises in the same sector can be heterogeneous in respect to their own resources and as resources are not perfectly transferable among enterprises, with competitive advantage being durable. However, resources and capabilities are not valuable on their own and are essentially unproductive in isolation Newbert (2008). As such, Newbert contends that the key to attaining a competitive advantage is by exploitation of a valuable resource-capability combination. This view is further supported by Bitar and Hafsi (2007), who opine that resources and capabilities are sources of competitive advantage, but they do not necessarily contribute to competitive advantage.

However, despite the increased literature devoted to use of RBV. The theory has its own critics. According to Hedman and Kalling (2003), this theory is criticized for neglecting the obstacles to dynamics and managements. Chan *et al.* (2004) similarly criticizes the theory for its implicit assumption of static equilibrium yet competitive advantages stem from developing current capabilities that are highly effective in responding to the organizational environment. For firms to attain competitive advantage in this competitive environment, they need to provide value to customers. This value can be derived from either cost advantage, service or differentiated products. Resource-based theory therefore, focuses on the relationship between a firm's internal resource stability and the ability to stay competitive through its strategy formulation. Resource-based view theory (RBV) has also been extended by Grant (1991) to encompass competitive strategy.

According to Grant, Resource-based View Theory links competitive strategies and capabilities to value creation. He posits that not only do capabilities need to be considered as the base to develop competitive strategy but they also need to be renewed and maintained by strategist. Hence RBV is important to understand value may stem from strategic alignment of resources and competitive strategies. In developing their competitive strategies the manufacturing firms in Kenya may pay attention to the resources existing within the firm so as to be able to create value for its customers.

3.0 RESEARCH METHODOLOGY

An explanatory research design was used to help explain the relationship between cost procurement competitive strategies and firm performance. This is consistent with the findings by Cooper & Schindler (2008) that, when the universe of study is an unknown, explanatory design forms the first step of research. The explanatory adopted mixed design approach that combines both qualitative and quantitative forms (Creswell, 2009) and hypotheses tested by measuring the relationships between variables, while data is analyzed using statistical techniques. It also included other types of quantitative research which will attempt to identify causal relationships through the analysis of correlations between variables (Maxwell & Mittapalli 2008).

The use of terms such as influence, impact and effect contribute to common in qualitative research and such terms imply causal relationship. The explanatory research design was suitable because the study was mainly concern with quantifying a relationship or comparing groups purposely to identify a cause-effect relationship. The design adopted as it supports the use of quantitative data and promotes comparison and statistical analysis. It provided the opportunity for presenting a greater diversity of divergent views. A major advantage of using the mixed methods research in the study is that it enables the researcher to simultaneously answer confirmatory questions regarding the moderating effect of information sharing on the relationship between procurement competitive strategies and firm performance, through both open and closed ended questionnaires and interviews. Explanatory survey research design advanced the relationship among variables.

According to Kenya association of manufacturers (K.A.M), there are approximately 766 registered manufacturing firms in Kenya. The population for this study comprised of corporate organizations in Kenya's manufacturing sector which is classified into 14 key industrial sub sectors and by the type of raw materials companies import or the products they manufacture, in addition to service sector and affiliate associations (KAM, 2014).

Target population of a study is a group of individuals taken from the general population who share common characteristics and used to generalize certain phenomena found in the manufacturing sector. The target population was all procurement managers from 766 registered manufacturing firms drawn from the 14 key subsectors all over the major towns and cities in Kenya. The sampling frame for this study will be all of the 766 manufacturing firms from 14 key industrial sub-sectors obtained from the directory of Kenya Association of Manufacturers (2014). These sub-sectors include; service and consultancy, building, mining and construction, chemical and allied, energy, electrical and electronics, food and beverages, leather and footwear, metal and allied, motor vehicle and accessories, paper and board, pharmaceutical and medical equipment, plastics and rubber, fresh produce, textile and apparels, timber, wood and furniture.

A sample is a portion or part of the population of interest. The purpose of sampling is to gain an understanding on attributes of the whole population based on the characteristics of the sample. Sampling involves drawing of a target population for observation. It is appropriate when it is not feasible to involve the entire population under study. Using Yamane's (1972) sample size formula at 95% confidence level, $P = 0.5$, the sample size is computed hereunder:

$$n = \frac{N}{1 + N(e)^2}$$

Where;

n = the sample size,

N = the population size,

e = the acceptance sampling error

$$= 766/1+766(.05)^2$$

$$= 264 \text{ respondents}$$

From the target population of 766 firms a sample of 264 procurement managers selected. Proportional sampling was used to select a sample from each of the 14 sub-sectors.

The study used stratified sampling technique to categorize the manufacturing firms into 14 stratas according to sub-sectors, with each sub-sector forming a stratum. Stratified random sampling was appropriate as it enables the researcher to represent not only the overall population but also key sub-groups of the population. Stratification helped to reduce standard error by providing some control over variance. The technique provided a better comparison across strata (Saunders *et al.*, 2007). Procurement managers were purposively selected from the manufacturing firms in Kenya. This technique was appropriate for the study since it is a representative sample and that all the target population was represented. The study used simple random sampling technique to determine the sample size. This allowed equal representation of all individuals in the defined population to be selected as a part of the sample (Kombo & Tromp, 2006). This is important as it helps to reduce biases that may arise. The sampling technique gave each respondent in the population an equal probability of getting into the sample.

The research instrument that was used in this study is questionnaire and interview schedule. In the questionnaire, firm performance will be measured using the seven (7) likert scale of strongly agree, agree, slightly agree, neutral, slightly disagree, disagree and strongly disagree. The Likert type of questions enabled the respondents to answer the questions easily. In addition, these allowed the researcher to carry out the quantitative approach effectively with the use of statistics for data interpretation.

After all data has been collected, the researcher conducted data cleaning, which involved identification of incomplete or inaccurate responses and correct to improve the quality of the responses. The data was coded and entered in the computer for analysis using the Statistical Package for Social Sciences (SPSS). Quantitative techniques such as descriptive statistics and inferential statistics were used to understand relationships between different variables. The descriptive statistical analysis was used include mean, percentages, standard deviation and frequencies to cater for the likert scales that had been used in the study.

Pearson product moment of correlation was used to determine the effect of procurement competitive strategies on performance of manufacturing firms. Pearson Correlation Coefficient will be used to determine relationship between cost competitive procurement strategies and firm performance in manufacturing sector in Kenya. It was appropriate to use the technique for interval and ratio-scaled variables. Linear regression analysis, was used to test Hypotheses.

4.0 RESULTS

The first objective of the study sought to establish the influence of cost procurement strategy on performance of manufacturing firms in Kenya. Study respondents were asked to indicate on a five-point Likert scale their level of agreement on several statements describing the cost procurement strategy in relation to firm performance. Using a five-point likert scale, the study sought to know respondents' level of agreement on various statements relating to cost leadership procurement strategy in relation to firm performance adopted by manufacturing firms. Descriptive statistics such as frequency, percentage, mean and standard deviation were jointly

used to summarize the responses as presented in Table 1. The study findings showed that most of the respondents were not sure whether their firms charged lower price compared to their competitors as shown by a mean of 3.3. Manufacturing firms are also involved in aggressive sales and promotions as indicated by a mean of 3.8. Moreover, most of the manufacturing firms indicated that they reduce their labour cost through automation of their production process as accounted for by a mean of 3.0. When asked to state how they charged for their product/services compared to other competing firms, the respondents agreed that they charged higher than their competitors as accounted for by mean of 3.94 and few strongly disagreed that they charged higher than their competitors.

In addition, the study findings showed that most of them agreed that they sourced their supplies from suppliers who provided a discount as shown by a mean of 3.3, while majority agreed that they do not emphasize on cost cutting and efficiency as shown by a mean of 4.1. Further, they agreed that they vigorously pursue cost reduction with a mean of 3.45. They agreed that their competitors' products are sold at relatively affordable prices as shown by a mean of 3.4. The major expenditure for manufacturing companies was on technology as accounted for by a mean of 3.8. The study findings showed that most of the respondents agreed that they outsource functions to control costs as shown by a mean of 3.93. Manufacturing firms are continuously exercise tight cost control and pay attention to details as indicated by a mean of 3.9. Moreover, most of the manufacturing firms indicated that they identify underperforming areas in order to cut costs as accounted for by a mean of 3.96. Manufacturing firms focus on product design technique that economizes on cost of materials as indicated by a mean of 4.14. From the findings of the study, it is further noted that responses to the 15 statements used to measure cost leadership procurement strategy ranged between the mean of 3.3 and 4.1 and with the overall mean of focus procurement strategy being 3.53. This shows that majority of the respondents were in agreement with the statements that were used to measure cost leadership procurement strategy. Similarly, the standard deviation of majority of the items ranged between 0.4 and 1.0. It could then be deduced that the responses to the cost leadership procurement strategy items were not deviating much from the expected responses. This is expected since some of the respondents may not have had access to crucial information on cost cutting and efficiency programme used within the organization.

Table 1 Cost leadership Procurement Strategies

	Mean	Std. Deviation	Skewness	Kurtosis
We charge lower price than our competitors	3.2846	1.08059	-.861	.306
We heavily invest in sales promotion	3.7764	.53720	-.128	-.181
We reduce labour input through automations	2.9959	1.00812	-.305	-1.402
We charge higher than our competitors	3.9472	.48787	-.770	3.566

We source for our supplies from those suppliers who provide discount	3.3374	1.07475	.408	-1.092
We do not emphasize on cost cutting and internal efficiency programme	4.0650	.64826	-.063	-.610
We vigorously pursue cost reduction	3.4512	1.02003	.308	-1.058
Our competitors' products are sold at relatively affordable prices	3.3780	.96857	.403	-.812
We have access to low-cost raw materials than our competitors	3.4959	.75457	-1.854	3.662
We strive to reduce cost in administration activities	3.5244	.53967	.138	-1.084
Our major expenditure is on technology based delivery system to lower costs	3.7561	.74331	.427	-1.086
We outsource functions to control costs	3.9268	.65988	.079	-.695
We continuously exercise tight cost control and pay attention to details	3.8902	.63899	.099	-.566
We identify underperforming areas in order to cut costs	3.9553	.67766	.054	-.808
We focus on product design technique that economizes on cost of materials	4.1423	.83793	-.526	-.740
Mean	3.5342	.36660	.220	-1.510

4.1 Performance of Manufacturing Firms

During the study the firm performance was the dependent variable in the current study. The respondents were requested to indicate their opinions with regard to firm performance measurement on a five point Likert scale. Further, the researcher sought to find out the relationship between competitive strategy and firm performance. Results of the study showed that most of the manufacturing firms were not sure whether cost leadership strategy had a positive impact on their sales as shown by a mean of 3.0. Majority of the respondents agreed that cost leadership strategy greatly improved their profits and 50.8% agreed that cost leadership strategy significantly improved their overall performance as shown by a mean of 4.25 as well as agreed that cost leadership procurement strategy significantly improved our overall performance (mean = 4.32). At least (3.6) of them agreed that differentiation procurement strategy had greatly improved their sales. The respondents agreed that focus procurement strategy significantly improved their sales (3.89), while some (3.96) agreed that focus procurement strategy improved their profit significantly and (3.76) agreed that differentiation procurement strategy improved their profit over the years. Majority of the respondents agreed that focus procurement strategy largely contribute to our overall performance as shown by a mean of 4.14. The respondents agreed competitive strategies has improved their sales, profit and overall performance in their manufacturing firms as indicated by a mean of 3.97. None of the three strategies (cost leadership,

differentiation and focus procurement strategy) contributed to improved sales, profit and overall performance alone.

Table 2 Performance of Manufacturing Firms

	Mean	Std. Deviation	Skewness	Kurtosis
Cost leadership procurement strategy positively impact on our sales	2.9959	1.00812	-.305	-1.402
Cost leadership procurement strategy has greatly improved our profit	4.2520	.80401	-.488	-1.287
Cost leadership procurement strategy significantly improved our overall performance	4.3252	.72839	-.589	-.917
Differentiation procurement strategy has greatly increased our sales	3.6341	.82579	.770	-1.097
Differentiation procurement strategy has improved our profit over the years	3.7561	.74331	.427	-1.086
Differentiation procurement strategy has greatly improved our overall performance	3.9268	.65988	.079	-.695
Focus procurement strategy has significantly improved our sales	3.8902	.63899	.099	-.566
Focus procurement strategy has improved our profit significantly	3.9553	.67766	.054	-.808
Focus procurement strategy largely contribute to our overall performance	4.1423	.83793	-.526	-.740
Competitive strategies has improved our sales, profit and our overall performance	3.9715	1.05134	-.474	-1.139
Mean	3.5091	.39235	-.171	.336

From the results of the means of the 10 items, it can be noted that all the means fall within the range of 3.0 and 4.3 with an overall mean of 3.5. This implies that majority of the respondents agreed with the statements hence implying that the items well captured the element of performance of manufacturing firms. Moreover, the standard deviation also falls within the range of 0.6 and 1.0 meaning that the responses are not very much dispersed from each other. This implies that overall the strategies employed influenced the performance indicators. These

findings agree with earlier studies that confirm that competitive strategies enhanced performance Herold, (1972) and that of Jonsson and Devonish (2009) which established that firms that had properly planned and applied competitive strategies having a tendency of high performance than those which did not.

4.2 Correlation Analysis

To achieve this Pearson's moment correlation was used. It was appropriate because all the variables were in ratio scale. Correlation coefficient (r) was used as the measure of the strength of the relationship. The study findings depicted that there is a significant positive relationship between cost leadership and performance of manufacturing firms ($r=0.245$, $p\text{-value}=0.00$). Therefore, an increase in cost leadership will lead to an increase in performance of manufacturing firms.

Table 3: Correlation Analysis of the Variables

		Performance	Cost
Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Cost	Pearson Correlation	.235**	1
	Sig. (2-tailed)	.000	

** . Correlation is significant at the 0.01 level (2-tailed).

c. Listwise $N=246$

4.3 Linear Regression Analysis

A linear regression model was used to explore the relationship between cost leadership and performance of manufacturing firms. The R^2 represented the measure of variability in performance of manufacturing firms that cost leadership accounted for. From the model, ($R^2 = .053$) shows that cost leadership account for 5.3% variation in performance of manufacturing firms. The cost leadership predictor used in the model captured the variation in the performance of manufacturing firms. The change statistics were used to test whether the change in adjusted R^2 is significant using the F-ratio as shown in Table 4. The model caused adjusted R^2 to change from zero to .053 and this change gave rise to an F- ratio of 13.159, which is significant at a probability of .05.

Table 4: Model Summary on Cost Leadership and Performance of Manufacturing Firms

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	.229 ^a	.053	.049	.98039678	.053	13.159	1	237	.000

a. Predictors: (Constant), Zscore(Cost)

Based on the regression model, the coefficient of determination (R squared) of 5.3% showed that 5.3% of the variation in performance of manufacturing firms can be explained by cost leadership. The adjusted R square of 5.3% depicts that the cost leadership in exclusion of the constant variable explained the variation in performance of manufacturing firms by 5.3% the remaining percentage can be explained by other factors excluded from the model. There was a significant change in the explanatory power (F change of 13.16 and p value of 0.000).

4.4 Analysis of Variance on Cost Leadership and Performance of Manufacturing Firms

The analysis of variance was used to test whether the model could significantly fit in predicting the outcome than using the mean as shown in (Table 5). The regression model with cost leadership as a predictor was significant (F=13.16, p value =0.001) shows that there is a significant relationship between cost leadership and performance of manufacturing firms. Thus, reject the null hypothesis that there is no significant relationship between cost leadership and performance of manufacturing firms.

Table 5: Analysis of Variance on Cost Leadership and Performance of Manufacturing Firms

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.648	1	12.648	13.159	.000 ^b
	Residual	227.799	237	.961		
	Total	240.447	238			

a. Dependent Variable: Zscore: Performance

b. Predictors: (Constant), Zscore(Cost)

4.6 Cost Leadership and Performance of Manufacturing Firms Coefficients

In addition, the β coefficients for cost leadership as independent variable were generated from the model, in order to test the hypotheses under study. The t-test was used as a measure to identify whether the cost leadership as predictor is making a significant contribution to the model. Table 6 shows the estimates of β -value and gives contribution of the predictor to the

model. The β -value for cost leadership had a positive coefficient, depicting positive relationship with performance of manufacturing firms as summarized in the model as:

$$Y = -.003 + 0.231x + \epsilon_1 \dots\dots\dots \text{Equation 4.1}$$

Where: Y = Performance, X = cost leadership, ϵ_1 = error term

Table 6: Cost Leadership and Performance of Manufacturing Firms Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1 (Constant)	-.003	.063		-.046	.963					
Zscore(Cost)	.231	.064	.229	3.628	.000	.229	.229	.229	1.000	1.000

a. Dependent Variable: Zscore: Performance

From the findings the t-test associated with β -values was significant and the cost leadership as the predictor was making a significant contribution to the model. The coefficients results in table 4.24 showed that the predicted parameter in relation to the independent factor was significant; $\beta_1 = 0.231$ ($P < 0.05$). The study hypothesized that there is no significant influence of cost leadership on performance of manufacturing firms. The study findings depicted that there was a positive significant relationship between cost leadership and performance of manufacturing firms ($\beta = 0.231$ and $p \text{ value} < 0.05$). Therefore, a unit increase in cost leadership leads to an increase in performance of manufacturing firms by 0.231. Since the p value was less than 0.05 the null hypothesis (H_{01}) was rejected and the alternative hypothesis accepted. Therefore, we can conclude that cost leadership has a significant influence on performance of manufacturing firms. This implies that for each increase in the cost leadership, there were 3.6 times increases in performance of manufacturing firms.

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion

The findings indicated that manufacturing firm’s performance increased for those pursuing cost leadership procurement strategies. In their pursuit to achieve cost leadership, these firms placed more emphasis on product design technique to economize on cost of material and vigorously focused on cost reduction through emphasis on reduction of administrative cost, charging lower than their competitors and investing in technology based delivery system among others.

These results are consistent with previous studies investigating the influence of cost leadership on firm performance. The findings of a study conducted by Marques *et al* (2000) who surveyed 12 large manufacturing firms from Portugal’s glass industry and found that companies that had a higher return on equity pursued a cost leadership procurement strategy based on efficiency production and a cost leadership procurement strategy derived from product innovation and that

of Shah *et al* (2000) which found that Japanese firms applying low cost performed better than US and German companies that applied a “Stuck in the middle strategy.

The study findings also support the work of Thathi (2008) which focused on competitive strategies used by advertising firms in Kenya and found that discounts, competitive pricing and quality of service provision were major strategies applied by advertising firms in Kenya. The findings are also consistent with the findings of Murimiri (2008) who found that cost reduction, outstanding customer service and operational efficiency were utilized by commercial banks in Kenya as a means of attaining competitiveness. The study findings are congruent with Porter’s (1980) assertion that cost leadership procurement strategy has a positive impact on market share in general since a firm that manages to sustain a competitive advantage in cost structure can offer the prices to customers. Based on its cost advantage, the firm produces and sells higher volumes than competitors which in turn increase its cost leadership. The study findings led to the rejection of the null hypothesis and acceptance of the alternative hypothesis that cost leadership procurement has a significant effect on performance of manufacturing firms in Kenya.

5.2 Conclusions

The goal of the firm pursuing cost leadership procurement strategy is to become the low cost producer in its industry. A low cost position gives a firm a defense against rivalry from competitors because its lower costs mean that it can still earn returns after its competitors have competed away their profits through rivalry. Cost leaders seek to improve efficiency and control costs throughout the organizations supply chain. The cost leadership procurement strategy affects the manufacturing firm performance. The cost leadership as used by manufacturing firms was statistically a significant factor in relation to firm performance.

5.3 Recommendations

The empirical evidence from this study infers that cost leadership has significant effect on performance of manufacturing firms. Based on the findings of the study, the researcher recommends that the manufacturing firms should adopt cost leadership procurement strategy. It is further recommended that the manufacturing firms pay attention to cheap sources of raw materials and other value chain management practices that result in reduction of cost. The cost saving mechanism is a major consideration in industries in Kenya due to higher cost of raw materials and energy and for this reason, the study recommends that the managers of manufacturing firms in Kenya deepen their engagement into more cost-effective methods of running business.

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