

Cost Leadership Strategy and Performance of Registered Small And Medium Food And Beverage Manufacturing Firms in Nairobi County Kenya.

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Small and medium manufacturing firms play an integral part in revenue generation in Kenya's economy and as avenue for employment opportunities for unemployed Kenya youths. With globalization and current economic trends in the market, many of the manufacturing firms face fierce competition that hinders their growth potential. This presents a need for these firms to adopt Cost Leadership Strategy to help them cut a niche the industry. Therefore, this research aimed at determining the influence of Cost Leadership Strategy on performance of small and medium food and beverage manufacturing firms in Nairobi County. This study was grounded on Competitive Advantage theory. The research used descriptive design and targeted 18 registered small and medium food and beverage manufacturing firms in Nairobi County. Simple random sampling was used to select the sample in conjunction with purposive sampling technique to ensure only respondents with desired information were selected in the study. Structured questionnaire was used to collect primary data. Data collected was analyzed using statistical packages for social sciences (SPSS) version 28 and presented in tables, charts and graphs. Multiple linear regressions model was used to establish the relationship between the independent variables and the dependent variable of the study. Findings showed that cost leadership, positively and significantly influence performance of small and medium size food and beverage manufacturing firms in Nairobi County with beta coefficient values ranging from 0.524 respectively. As a result, the researcher determined that Cost Leadership Strategy examined in the study had a substantial impact on the performance of SMEs in Nairobi County. Furthermore, the researcher recommended that SMEs' management should adopt Cost Leadership Strategy in order to meet their performance targets. The study also suggests that further research be conducted to examine policy implications on the adoption of Cost Leadership Strategy in Kenyan manufacturing SMEs, as the current study was mainly oriented towards the adoption of Cost Leadership Strategy and the subsequent influence on their performance.

Key Words: Cost leadership, Performance

I.0 INTRODUCTION

1.1 Background of the Study

In today's dynamic and competitive business environment, small and medium-sized enterprises (SMEs) play a pivotal role in the economic growth and development of many countries. In Kenya, SMEs are a significant contributor to employment generation, wealth creation, and poverty reduction. Among these SMEs, the food and beverage manufacturing sector holds a prominent position due to its potential for value addition, export earnings, and its role in providing essential products to the domestic market (Onyango, 2017).

Organizations have grown to manage the rising complexity of their internal and external surroundings through the adoption of competitive strategies over time. Competitive strategy is the pursuit of a positive competitive position in an industry principal setting for competition (Porter, 2019). The aim of competitive strategy is to forge a sustainable and profitable position against the elements influencing industrial rivalry. This entails locating sources of competition in an environment that is constantly changing and then creating strategies that align organizational capabilities with those changes (Arasa & Githinji, 2014).

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According to Porter (2019), there are three approaches to creating a competitive strategy. These include striving to be the provider of mostly affordable costs, known as a low cost leadership strategy; making an effort to offer distinctive and innovative products that stand out in the market, known as a differentiation strategy; and concentrating on a particular segment of the market, known as a focus or niche strategy. According to Ombaka et al. (2018) a firm's resources are the primary factors that determine its performance and competitive advantage. Strategic assets encompass any financial, physical, human, intellectual, and other types of resources that an organization uses to manufacture and market goods and services to customers in a competitive manner.

To thrive in an ever-changing business landscape, SMEs must adopt appropriate strategies to remain competitive and ensure their long-term sustainability. One of the key strategies that have gained attention in the literature is the "Cost Leadership Strategy." This strategy entails becoming the lowest-cost producer in an industry, which can lead to a competitive advantage through reduced prices, increased market share, and improved profitability. In the context of food and beverage manufacturing, where consumer price sensitivity is high, cost leadership can be particularly crucial for SMEs (Charles, & Benson, 2023).

Small and medium-sized manufacturing firms (SMEs) play an important role by creating employment to vast section of Kenya's population and generation of revenue, which demonstrates their importance in advancing economic development, innovation, and creativity across the globe (Mkala, Wanjau & Kyalo, 2018). Manufacturing sector has been identified as the primary engine of economic expansion due to higher elasticity of demand for industrial items than those for non-industrial goods. Manufacturing SMEs are key to a nation's economic development, therefore guaranteeing their success is crucial for generating income and jobs as well as for maintaining stability.

Though the government of Kenya (GoK, 2013) latest reports shows that currently, the contribution of manufacturing sector on the GDP has stagnated at 10% while that of Micro and small businesses, which comprise up to 95% of all firms, contribute less than 15% to GDP, whereas medium and large businesses, which make up 5% of all firms contributes the lion share of more than 60% of the sector's GDP. In terms of wage employment and payment by industry, the sector is rated third and fourth, respectively (KNBS, 2014). Improving the sector's productivity, the government hopes to accomplish its objective of helping manufacturing SMEs grow into the leading industries in the future. The SMFs are frequently lauded for their contributions to economic expansion and sustainable development. Kenya's economy is dominated by manufacturing SMEs.

However, manufacturing SMEs continue to encounter a variety of internal and external business challenges. A survey by Kenya national bureau of standards (KNBS) in 2018 highlights that approximately 400,000 SMEs do not celebrate their birthday and very few reach their fifth birthday, an indicator of a challenging operational environment. During the 3rd summit and Expo of Kenya Association of Manufacturers, (KAM) it became apparent that SMEs face huge challenges like inadequate financial capacity, technological advancements, limited market access, inadequate knowledge and skills gap, unfavorable regulatory policies as some hindering factors.

Onyango (2017) further alludes that low quality products, closely related items, disparate product valuations and pricing, and negative product impressions are among the primary obstacles SMFs must overcome. Consequently, according to vision 2030 Kenyan manufacturing sector must address some teething challenges



Research Bridge Publisher, International Journal of Social Science and Humanities Research , Vol. 1, Issue 1, pp: (483-492), Month: June - December 2023, Available at: <https://researchbridgepublisher.com/> which include reduced expected returns on investment and a lack of long-term financing, an unfavorable business climate and lax legal enforcement and limited access to capital (Government of Kenya, 2017). The World Bank (WB, 2013) mentions that 59% of firms report that they compete with unregistered/informal firms. The informal competition practices have been rated as the biggest barrier by formal manufacturing firms which account for the GDP contribution decline from the manufacturing sector.

1.2 Statement of the Problem

The performance of small and medium manufacturing firms in the twenty-first century has undergone significant transformation due to factors such as globalization, technological advancements, and evolving customer preferences (Ahmad & Schroeder, 2011). The manufacturing SMEs have found themselves operating in an environment of fierce competition, leading to the survival of only a select few, with no assurance of sustained competitiveness (Gecheo, 2020). Koontz and Thomas (2012) emphasized that the success of SMEs is intrinsically linked to their performance levels and their ability to maintain these levels. They argued that the performance of these small and medium manufacturing firms plays a pivotal role in determining their survival, prosperity, expansion, and the speed at which investments are made.

While various studies have explored competitive strategies, including Muia's (2017) investigation of the impact of competitive strategies on the performance of insurance companies in Kenya and Baraza and Arasa's (2017) study on the strategies adopted by manufacturing firms to enhance their competitive position, the focus of these studies has primarily been on financial implications. In a similar vein, Fatuma (2018) delved into competitive strategies and the performance of SMEs in Manderu County, emphasizing strategic alliances, partnerships, and joint ventures. Furthermore, Githendu (2022) explored the effect of competitive strategies on the performance of manufacturing firms in Nairobi, particularly concerning production, pricing, quality, and distribution strategies. However, these studies, while insightful, have primarily revolved around specific contexts that differ from the current study's objectives, thereby underscoring the presence of both contextual and conceptual gaps.

Given the existing research landscape and the identified gaps, there is a compelling need for further exploration to unravel the intricate relationship between cost leadership strategy, focus strategy, differentiation, and product innovation strategies and their impact on the performance of SMEs in the manufacturing industry. Hence, this study seeks to address this need by investigating the influence of competitive strategies, including cost leadership, on the performance of small and medium-sized food and beverage manufacturing firms in Nairobi County

1.3 Objective of the study

This study aimed at investigating influence of cost of leadership strategy on the performance of small and medium size food and beverage manufacturing firms in Nairobi County.

2.0 LITERATURE REVIEW

2.1 Michael Porter Competitive Advantage Theory

The theory of competitive advantage was proposed by Michael Porter in 1985. This theory postulates that a complex interplay between suppliers, customers, alternative products, and the danger of new competitors

Research Bridge Publisher, International Journal of Social Science and Humanities Research ,_Vol. 1, Issue 1, pp: (483-492), Month: June - December 2023, Available at: <https://researchbridgepublisher.com/> entering the market determines the degree of competitiveness within an industry. Firms must establish a competitive advantage in order to thrive in a highly competitive marketplace. According to Porter (1985), businesses competing in a particular industry are required to carry out a variety of tasks that both incur costs and add value for customers. Utilizing a competitive strategy, a business seeks to position itself against the forces reshaping its industry in a way that is both sustainable and profitable. According to Porter (1985), an organization achieves better performance by concentrating on one of three key business strategies: differentiation, cost leadership, and focus. To acquire a competitive position, a company's strategy must align with its mission and goals (Parker and Helms, 1992; Kippenberger, 1996; Surowiecki, 1999; Ross, 1999). The study on influence of competitive strategies on organizational performance is informed by Porter's Generic Competitive strategies theory, which is pertinent to organizations that want to establish a competitive position to thrive in a highly competitive operational environment. Porter's Generic Competitive Strategies theory is relevant as it informs the study on competition strategies adopted for organizational survival.

2.2 Conceptual Framework

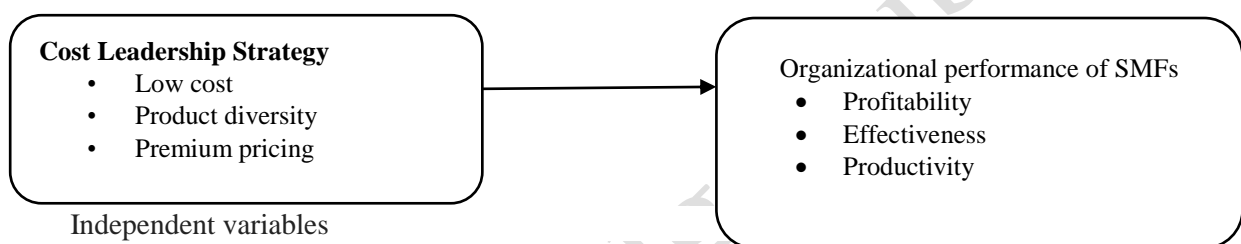


Figure 1: Conceptual framework

2.3 Empirical Review

Dutse and Aliyu (2018), terms cost leadership as a state when a business positions itself as the lowest-priced maker or supplier of a particular good or service in a market. To employ this strategy, a company must produce goods of acceptable quality for certain clientele at a lower/affordable price than other businesses producing a comparable product to achieve cost leadership advantage

Likewise, Chisulo (2019) examined how cost-cutting measures impact productivity and performance using descriptive research techniques. Cost reduction strategies and the performance of the tea sector were found to be highly correlated. The study's findings demonstrate that the cost reduction strategy has an outstanding impact on the tea sector. The findings of the regression analysis prove that the tea industry's financial triumph and cost reduction methodology are strongly and certainly interconnected. Moreover, Alamri (2019) also discovered a favorable correlation between pricing and financial performance, citing that clients are more inclined to buy products and services from a company when the price is appealing and favorable.

According to Cravo and Piza (2019) pricing is key factor in cost leadership, that is used in enticing customers and boosting sales and influence a company's ability to continually generate revenue in order to increase profitability and liquidity over time. Since price is the only component of the marketing mix that is directly related to a company's ability to generate revenue, You (2022) highlight that pricing is utilized as an indicator of profitability.

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According to Haruyama and Hashimoto (2020), an efficient pricing strategy should display a consistent pricing structure that makes it easier to fulfill company goals by guaranteeing the worth of a good or service in comparison to competitors. The researchers also point out that a successful pricing strategy should target the market for all pricing-related activities by directing both an organization's core behavior and its outlying communiqué.

3.0 METHODOLOGY

Descriptive survey design was used in this study. The design was preferred because it allows for the extraction of extensive data and also permits the researcher to measure how people feel about certain events, procedures, and people in general (Charles, & Benson 2023). The study involved 18 SMFs in the food and beverage Nairobi county as the unit of observation, whereas the management personnel were used as the unit of analysis (Githendu.2022). The sample size for this study was determined by Taro Yamane (1967) formulae and involved 85 respondents who were selected through simple random sampling technique. Data was collected using a questionnaire and analyzed using descriptive and inferential analysis. Multiple linear regressions was carried out to test the influence of competitive strategies on the performance of SMFs.

4.0 FINDINGS AND DISCUSSION

4.1 Descriptive Analysis for cost leadership

The aim of this study was to investigate the influence of cost leadership on performance of SMEs in the food and beverage manufacturing sector. To achieve this objective, the respondents were required to indicate their level of agreement with statements regarding cost leadership influence on performance on performance of food and beverage SMEs. The summarized results are presented in Table 1 below;

Statement	N	Mean	Std. Deviation
Our firm offers different products that meet customer demands	72	3.6944	.76248
We offer relatively fair prices for products	72	4.2222	.45105
Our firm offers premium discounts	72	4.1389	.81024
Our firm offers efficient customer service	72	3.9583	.79501
We offer competitive products deals	72	4.0278	.69144
We offer customer appeal services	72	4.0556	.74850
Valid N (listwise)	72		

Findings from Table 1 above show that majority of the respondents agreed that their SMEs offered different products that meet customer demands as shown by a mean of 3.6944 with a standard deviation of 0.76248, indicating a closeness to the mean. Similarly, the majority of the respondents agreed that their firms offered fair pricing for their products as supported by a mean of 4.2222 and a standard deviation of 0.45105, an indication of a closeness to the mean. This conforms with the findings of Cravo and Piza (2019) who opine that pricing is key factor in cost leadership, that is used in enticing customers and boosting sales and influence a company's ability to continually generate revenue in order to increase profitability and liquidity over time

The findings further showed that most respondents agreed that their firms offered premium discounts to draw customer attention to their products, making their products to more affordable as supported a mean of 4.1389

Research Bridge Publisher, International Journal of Social Science and Humanities Research ,_Vol. 1, Issue 1, pp: (483-492), Month: June - December 2023, Available at: <https://researchbridgepublisher.com/> with a standard deviation of 0.81024, implying a closeness to the mean. The respondents also agreed that their firms offered efficient customer services as one way of improving their performance as reflected by a mean of 3.9583 and a standard deviation of 0.79501.

Likewise, the study found out that majority of the food and beverage SMEs firms offer competitive products deals, that make their prices to be fairly afforded as supported by a mean of 4.0278 with a standard deviation of 0.69144, an indication of a closeness to the mean. Finally, the researcher found that most of the SMEs offered customer appeal services that make them become more competitive as reflected by a mean of 4.0556 with a standard deviation of 0.74850. These findings reverberate with those of Onyango (2017) who found that that a company's ability to compete successfully in the market depended heavily on the methods it employed to beat its rivals, such as the cost leadership strategy in all aspects.

4.2 Descriptive statistics for organizational performance

The general objective of this study sought to establish the influence of competitive strategies on organizational performance of food and beverage manufacturing small and medium enterprises in Nairobi county. To achieve this objective, the respondents were asked to give their opinions on their level of agreement on the statements provided relating to organizational performance of SMEs in Nairobi county. The summarized results have been presented below in Table 2;

Statement	N	Mean	Std. Deviation
our market share has increased	72	4.0972	.63156
our customer base has improved tremendously	72	3.9722	1.02052
Our firm has managed to attract new more customers	72	4.2778	.53661
Our customers are satisfied with our product and services	72	3.6806	.96161
some of our rival companies have shifted to other markets	72	3.9861	1.10687
we have a motivated and committed workforce	72	3.9028	.90631
Valid N (listwise)	72		

The study noted that most of the SMEs in the food and beverage manufacturing sector have experienced an increase in their market share which has greatly led to their improved performance as reflected by a mean of 4.09972 and standard deviation of 0.63156. Consequently, the firms' customer base has improved tremendously as shown by a mean of 3.9722 with a standard deviation of 1.02052, indicating a closeness to the mean.

Most of the SMEs have managed to attract new customers which suggests that the firms have achieved a tremendous growth in their performance. This is reflected by the mean 4.2778 achieved with a standard deviation of 0.53661, which indicates a closer relationship to the mean. Majority of the respondents agreed that their customers were fully satisfied with their product and services range as shown by a mean of 3.6806 and a standard deviation of 0.96161.

Further, the study noted that some rival companies continue to shift to other markets due intense competition as supported by a mean of 3,9861 and a standard deviation of 1.10687, indicating closeness of responses to the

Research Bridge Publisher, International Journal of Social Science and Humanities Research ,_Vol. 1, Issue 1, pp: (483-492), Month: June - December 2023, Available at: <https://researchbridgepublisher.com/> mean. Finally, the researcher found that most SMEs have motivated and committed workforce that was driving their performance goals as shown by a mean of 3.9028 and a standard deviation of 0.9063, indication of a clones to the mean.

The findings of this study show that the respondents were in agreement that competitive strategies influence performance of SMEs are consistent with the views of other scholars. For instance, Githendu (2022) observed that production cost, product quality, product pricing and product distribution all played a significant influence on the customer perception and buying behavior. Moreover, Yuliansyah et al. (2017), suggested that in order to improve performance, performance measurement systems should be created that are in tandem with company strategies. More so, it has been determined that using a differentiation approach rather than a low-cost strategy is the most efficient way to gain a competitive advantage and achieve superior performance in Indonesian financial institutions.

4.3 Regressions analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.702 ^a	.691	.637	.32688

a. Predictors: (Constant), CL
b. Dependent Variable: OP

The findings in Table 3, show that the R square value is 0.691. This implies that 69.1% of the variation in performance of small and medium food and beverage manufacturing firms in Nairobi county, Kenya, can be explained by the predictor variables of cost leadership. The remaining 30.9% suggests that there are other factors not considered in this study that also influence performance of small and medium food and beverage manufacturing firms in Nairobi county, Kenya.

4.4 Analysis of variance

The analysis of variance (ANOVA) is used to test on the significance of the model. In this study, the significance of the model was tested at 95% confidence level, with a p-value of less than 0.05 indicating statistical significance.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.716	1	4.716	44.07548	.000 ^b
	Residual	13.159	70	.107		
	Total	17.875	71			

a. Dependent Variable: OP
b. Predictors: (Constant), CL

The ANOVA results in Table 4, demonstrate that the regression model is significant (F= 44.07548p<0.05). This implies that the combined independent variables of cost leadership account for significant portion of the variance in the performance of small and medium food and beverage manufacturing firms in Nairobi county, Kenya. The significant F-value indicates that the variation in performance is not due to chance but rather is influenced by the independent variables included in the model. The p-value of .000, which is less than the significance level of 0.05, confirms the statistical significance of the results.

Table 5: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.850	.781		4.931	.000		
	CL	.524	.140	.198	1.598	.005	.887	1.127

a. Dependent Variable: OP
b. Independent Variables: CL

Generally, variance inflation factor (VIF) value of 1 indicates there is no correlation between the predictor variables. A VIF value between 1.01 to 5.0, shows moderate correlation and VIF value greater than 5.0 indicates potentially severe correlation and the coefficient estimates and p-values in the regression output are unreliable. It can also be seen from the results (Table 5) that the VIF shows that none of the predictor variables under the study had VIF values more than 5, an indication that multicollinearity was not a problem in the regression model, hence the regression results were reliable. .

The findings show that cost leadership strategy has a positive significant influence on performance of small and medium food and beverage manufacturing firms in Nairobi county, Kenya ($\beta = 0.524$, p-value = 0.005). This aligns with previous which cites that cost strategy significantly affect how well Kenyan manufacturing companies performed (Ndugu, 2020). Similarly, Onyango (2017); Odak, & Aila, (2023). asserts that a company's ability to compete successfully in the market depends heavily on the methods it employs to beat its

5.0 CONCLUSION

Competitive strategies play an important role in the performance of SMEs as found from the findings of this study. This was shown by the positive correlation that was found between cost leadership strategy on the performance of small and medium food and beverage manufacturing firms in Nairobi County. Therefore, it is imperative to note that majority of SMEs in the manufacturing sector in Nairobi county, have made significant efforts to improve on their market dominance in the face of the intriguing competition from other rivals. The researcher further notes that SMEs that embrace competitive strategies deliver on their performance goals as shown by the findings of this study. The results display a great significance of cost leadership strategy as the most important competitive strategies in enhancing overall organizational performance of SMEs in Nairobi county, as shown by their strong positive and significant influence on performance. Hence, organizations that need to have a better performance can incorporate cost leadership strategies and shun away competitive forces from their rivals.

6.0 RECOMMENDATIONS

Cost leadership in vital for SMEs but a lot of emphasis should be towards on cost cutting measures to ensure the cost effect do not affect the revenue streams. Implementing a cost leadership strategy for SMEs can be an effective way to enhance performance and competitiveness. The study suggests that this can be achieved through conducting cost analysis to identify areas where cost reduction is possible. The study further recommends that SMEs can adopt lean manufacturing to eliminate wastes in production process, encourage continuous improvement and foster cost leadership culture within organizational policies.

7.0 SUGGESTIONS FOR FURTHER STUDIES

The researcher recommends for more studies to address policy implications on the adoption of competitive strategies in the manufacturing SMEs in Kenya as the current study was only inclined towards adoption of competitive strategies and the subsequent influence on their performance. The researcher further notes that more studies should be conducted on the impact of competitive strategies in other sectors, as there exists a deficiency in literature particularly on studies done in Kenya.

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