

Influence Of Competitive Position On Growth Strategies Among Manufacturing Companies In Nakuru County, Kenya

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Abstract

We are living in a global industry and the impact of globalization on the business ventures cannot be wished away. A global industry is one where the marketplace is worldwide and major firms are driven to employ some type of worldwide competitive strategies or else face strategic disadvantage. The competition position is determined by a number of factors including; market power, product line, customer service, research and development, financial position, cost advantage, etc. This study sought to establish whether competitive position of a firm influences its choice of a growth strategy. The findings established that though the firms under study were homogeneous, the approach to strategic choice was totally dependent on a firm's capabilities. The competitive position of a firm was indeed found to be a factor that influenced the sampled firms' choices of specific growth strategies. This indicates that, before any growth strategy is formulated, a firm has to do a thorough analysis of the capabilities within i.e. internal business environment and also the external environment to be able to come up with a good strategic fit.

Keywords – Competitive Position, Growth Strategies`

I. INTRODUCTION

Globally, successful organizations know when and how to adapt to change. There are always reasons why an organization needs to change and this is normally due to the prevailing circumstances. The changes may be internally triggered due to a desire by the organization to change or instigated by external factors e.g. stiff competition from other industry players globally. Many organizations today face a dynamic and changing environment which in turn requires these organizations to adapt. Change or die is the rallying cry among today's managers worldwide (Robbins S. P., Organizational Behavior, 2001). The blending of telecommunications, computers, the internet and one global marketplace has increased the pace of change exponentially during the past 10 years and all business organizations are affected; Change has become an integral part of what leaders and managers deal with daily (John A Pearce 11, Richard B Robinson, Jr., Amita Mital, 2008).

In adapting to these changes, companies can often benefit from acquiring other business including the ones operating in overseas markets or growing internally. The availability of new customers or cheaper costs of employing people may give competitive advantage. The need to achieve lower costs and amortize the high fixed costs of research and development, design, production, markets and services is often cited as a reason to globalize (Agmon, T. and Drobnick, R., 1994). Strategic positioning of the competitors in major national markets is fundamentally affected by their overall global position. Therefore firms in global industries may cross – subsidize different markets in order to achieve market share or to threaten a competitor.

Every organization begins with an anticipation of growth. This growth may be determined by the company's assets when valued. Growth creates opportunities to utilize the firm's resources fully to enrich and expand them because only a growing firm can create

challenging jobs that force the workers to expand their knowledge and experience. Such desire for growth on the part of employees cannot but influence corporate decision making. This pursuit of maximum growth has serious industrial and macroeconomic consequences. It affects inter-firm and intra-firm competition (Odagiri, 1992).

The choice for a growth strategy depends on a number of factors. The combination of the various factors contributes to the strategies selected which influence the performance of the organization (Paul M Kariuki, Zachary B Awino, Martin Ogutu, 2011). These factors can propel an organization to either choose organic growth strategies or inorganic or both. These factors are so crucial in that a failure to understand them can lead to collapse of an organization. Strategists of the various companies then have to agree depending on the prevailing circumstances whether to go for organic growth which is growing from within or inorganically. The term inorganic growth describes how a business grows by joining one or more companies together e.g. a merger where two firms join by agreement or an acquisition of another company. Organic growth is when a company increases the turnover of the existing business e.g. Product development, market penetration, market expansion, innovation, diversification, etc.

On the local seen also companies have to engage in a growth strategy either knowingly or unknowingly failure to which their survival is at a high risk. Nakuru town is a fast growing town (Unhabitat, 2011) in the country and has had indigenous companies that have had to grow either organically or inorganically or by use of both growth strategies. One of the major industry sectors in the county is the manufacturing sector comprising of both small and large firms. The research therefore focused on manufacturing companies that are indigenous in the county and the ones registered by Kenya association of manufacturers.

The UN-Habitat issued a report on state of the world's cities 2010/2011 placing Nakuru as the fastest growing town in Africa with a growth rate of 13.3%. This was far much higher (almost thrice) than the growth rate of the capital city Nairobi which its growth rate was placed at 4.9%. Nakuru is the headquarter of the former wider Rift Valley province which the 2009 Kenya's census report placed its population at 10,006, 805 people with Nakuru town contributing 473, 288 people. With the current county governance, Nakuru County has a population of 1,603,325 people. The high population has created a demand of goods and services to increase sharply and the market industry players have to take advantage of this. This has caused all industry players to engage in growth strategies to survive. The main thing therefore is to find a good strategy that fits organizations and when well implemented will be able to give the best results and help the organization experience exponential growth. However, before a strategy is chosen, a good environmental analysis has to be done to understand the unique factors organizations face before embarking on one.

II. RESEARCH OBJECTIVE

To examine the influence of competitive position on growth strategies among manufacturing companies in Nakuru County, Kenya

III. RESEARCH QUESTION

What is the influence of competitive position on growth strategies among manufacturing companies in Nakuru County, Kenya?

IV. LITERATURE REVIEW

Organization's Competitive Position

We are living in a global industry and its impact of globalization on the business ventures cannot be wished away in any industry. A global industry is one where the marketplace is worldwide and major firms are driven to employ some type of worldwide competitive strategy or else face strategic disadvantage (Arthur A. Thompson Jr., A. J. Strickland III, John E. Camble, 2010). Thompson *et al* (2010) say, 'to craft a strategy in a globally competitive industry, it is necessary to examine the industry and the competitive situation from a worldwide perspective as opposed to considering only conditions in one country.' Being in Competitive situation may influence a company to choose acquisition over a merger or vice versa.

Assessing a firm's competitive position improves its chances of designing strategies that optimize its environmental opportunities. The competition position is determined by a number of factors including; market power, product line, customer service, research and development, financial position, cost advantage, etc. When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. Competitive advantage exists when a firm has a product or service that is perceived by its target market customers as better than that of its competitors (Dess, Gregory G., G. T. Lumpkin, Mariyln L. Taylor, 2005). Porter (1980) as cited by Dess et al. (2005) identified five factors that determine the nature and degree of competition in an industry. They are: bargaining power of buyers, threat of substitutes, bargaining power of suppliers, rivalry amongst existing competitors and threat of new entrants. These five market forces determine the ability of a firm whether large or small to be successful. The competitiveness of a firm in terms of resources, skills, etc will determine the strategy to be undertaken to achieve a competitive advantage and at what point.

The resource base view (RBV) of innovation focuses on the firm and its resources, capabilities and skills. It argues that when firms have resources that are valuable, rare and not easily copied they can achieve a sustainable competitive advantage frequently in the form of innovative new products (Trott, 2005). The firm can also adopt a strategy of growth by use of its advantages that it will take the other competitors along way to copy. Coca Cola Company is known worldwide for its good distribution network. In Kenya for example, almost every shop, hotels, even in public transport buses you will be assured of getting a Coca Cola product. When East Africa Breweries Limited ventured into the soft drink market by producing Alvaro, Coca Cola Kenya responded quickly and launched a similar product (Novida) to counter the threat caused by the brewing company. Due to its advantage in distribution networks and the brand name, Coca Cola was able to overtake EABL in the sale of this substitute product.

According to RBV, in order to develop a competitive advantage, the firm must have resources and capabilities that are superior to its competitors. A case in example is the continued war between the mobile telephony providers in Kenya. Safaricom with a subscriber base of over 17 million subscribers with annual revenue of ksh.94.84 Billion in Kenya has been able to outsmart its main competitor Airtel Kenya through its huge resources and capabilities. The CEO, Mr. Bob Collymore said that, 'In Safaricom we will endeavour to provide an unmatched experience to our customers at all touch point' (Safaricom, 2010) signifying the strong capabilities the firm has over its main competitors.

Competitive advantage is created by using resources and capabilities to achieve either a lower cost structure or a differentiated product. A firm achieves value by performing a series of value chain activities. Safaricom added value to its customers by introducing a rewarding system dubbed, “Bonga” (extra points for using the service) points for every call one makes exceeding a set amount. These points can be accumulated until one is able to by an asset ranging from a phone to a computer depending on the number of your points. This caused many people to get stuck with the service provider with an anticipation of winning even when other players introduced what looked like better strategies.

Porter (1985) argues that those companies who are able to achieve competitive advantage are able to reinvest this additional profit into the activities that created the advantage in the first place thus creating a virtuous circle of improvement or competitive advantage. This is the main headache for most top level managers. For firms to obtain economic rents they must acquire the resources and capabilities needed to conceive and implement strategies (Barney, 2001). The competitive advantage may be by what the firm has control of. Some of the areas include:

Market Power

Market power exists when a firm is able to sell its products above the existing competitive level or reduce the costs of its primary and support activities below the competitive level or both (Michael A. Hitt, Duane R. Ireland, Robert. E. Hoskisson, 2001). Market power is derived from the size of the firm and its resources and capabilities to compete in the market place. Therefore, most acquisitions designed to achieve market power entail buying a competitor, a supplier, a distributor, or a business in a highly related industry to allow exercise of a core competence and gain competitive advantage in the acquiring firm’s primary market. Firms use horizontal, vertical and related acquisitions to increase their market power. A good example is the Acquisition of Softa soda in Kenya by Coca Cola Company Kenya (Coca-cola, 2011).

Product Line

Having quality products and service offered at a reasonable price gives a firm a firm a higher competitive position. The firm creates a brand for itself and in most cases will go for strategies that the other players have to work harder to adapt like acquisition. Menengai oil company produces one of the best bar soaps in the country called Menengai Bar soap (Limited M. o., 2012). It is a quality product and many residents prefer using it than the others even though it priced at a higher price than the majority bar soaps. Depending on the level of competitiveness of a firm, it will be able to choose either to grow organically or inorganically or both so long as the growth strategy gives them a high competitive advantage. Businesses become successful because they possess some advantage relative to their competitors. The two most prominent sources of competitive advantage can be found in the business’s cost structure and its ability to differentiate the business from competitors. The question to always ask is what resources to do we have at our disposal.

Availability of Resources

Resources play a key role on growth strategy of a firm. Research has suggested that the internal resources of a firm rather than the external environment around the firm are possibly the primary source of performance differences among firms (Akio, 2005). The resources considered include, financial, human resource, and government investment policies. As earlier, mentioned, using Resource Based View in internal analysis, a firm identifies and

evaluates its resources to find those that provide the basis for future competitive advantage. It involves defining the various resources the firm possesses and examining them based on the preceding discussion to gauge which resources truly have strategic value. Refer to the figure;

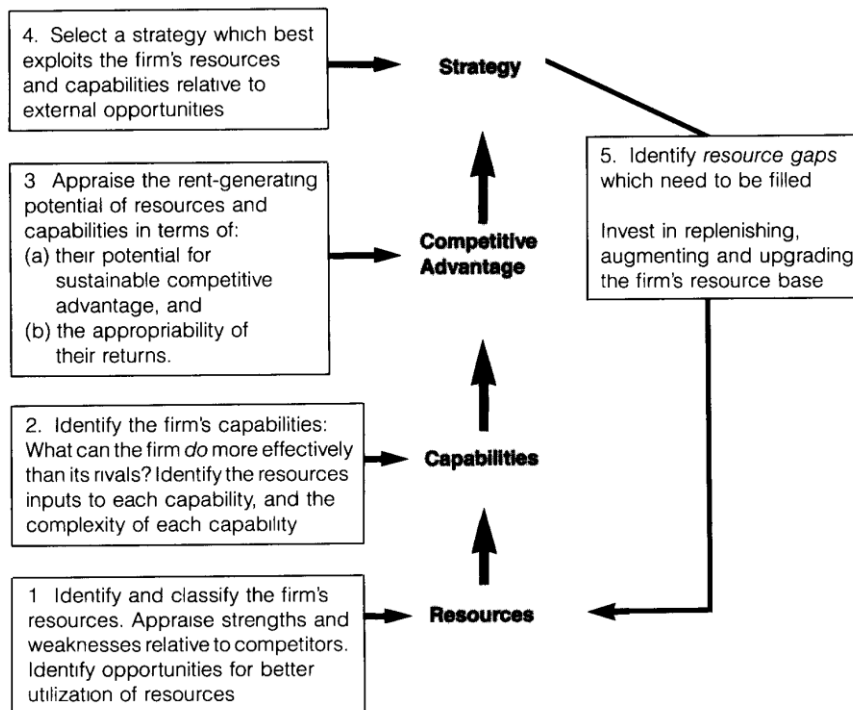


Figure 1: A resource based approach to strategy analysis. A practical framework (Grant, 2001)

Financial Resources

Most inorganic growth strategies require big amount of money. The heavy investments, makes them even more risky than the others because of loss of control. E.g. the merger between CFC and Stanbic bank had a transaction cost of approximately USD 80 million (Approximately Ksh.8 Billion), (Standardbank, 2008). This means that if the two didn't have that amount it would have been difficult to transact the business hence implying no success in the merger. Firms with huge profit margin can engage in either of the strategies so long as it gives them a high competitive advantage over its main rivals. With the decline in revenue, the dry cell battery maker, Eveready East Africa Company slowed down on growth and engaged in retrenchment strategies to help in preventing the company from collapse. The financial capacity of an institution will determine to a greater extent the strategy to be undertaken (Eveready, 2008).

Because a higher rate of growth tends to require more than a proportionally larger investment cost owing to increasing difficulties in marketing, research, capacity expansion and management, the negative effect of growth becomes dominant as the firm pursues faster growth i.e. even though value may increase with the growth rate for a range of low growth rates, eventually it begins to decrease; i.e. a trade of between value and the growth rate takes place on which the management has to make a decision (Odagiri, 1992).

Human Resource

Human resource is a key component in implementation of a strategy. According to her work, Penrose (1959) as quoted by Akio (2005) concluded that firm development is an evolutionary

and cumulative process of resource learning in which increased knowledge of the firm resources both helps create options for further expansion and increase absorptive capacity. She considered a firm besides being an administration unit as a collection of productive resources which including both physical and human resources. If a company has the skills and knowledge necessary for implementation of a strategy then it would rather go for organic growth. However, when a corporate wants to expand and does not have the skills required then it would rather go for inorganic growth. The skills required include, knowledge on the ways of production, knowledge of the market (understanding of consumer needs), good distribution channels, etc. In this case, it is better for a corporate to acquire e.g. distributors who will help in the marketing and distribution of a good or service instead of setting up a firm in the desired area.

The distributors have an understanding of the consumers and it will be easier to for the good to sell faster. Many organizations use internal development particularly with products which are highly technical in design or method of manufacture. This is normally through innovations. Business will choose to develop new products themselves since the process of development is seen the best way of acquiring the necessary skills and knowledge to exploit the product and compete successfully in the market place (Gerry et al., 1993). The skills are also required for the formulation and implementation of the strategies to ensure a success or else the corporate will be forced to outsource the service which can prove to be very costly for a corporate.

Government Goodwill Investment Policies

The government has a responsibility to develop good business policies to spur up growth. These policies are in terms of regulations that ensures good corporate governance, good and healthy competition, etc. Most corporate understand the value of government incentives and in most cases, many look forward to taking advantage of them. A case in example is having tax waivers on formation of joint ventures or removal of taxes on corporate social issues. When the government provided incentives on corporate social issues, now almost every corporate has set aside some amount for corporate social responsibility. The main advantage is that the various players use it also as a marketing venture and through it they are able to reallocate the amount saved on other corporate expansion strategies. Therefore if the government comes up with incentives that are geared towards organic growth, most corporate institutions will go that way but if it gives incentives towards inorganic growth, then most firms will go for inorganic.

The United States of America government came up with antitrust policies and tax laws that provided incentives for US firms to diversify in the 1960s and 1970s and most institutions went for diversification (Hitt *et al.*, 2001). The other main contributor is the investment policies of a country. Some countries have tough rules regarding investment. Some regulations favor organic growth while others favor inorganic growth depending on the need of the government of the day. This is normally either to protect the local industry from collapsing or increase the growth rate of the industry.

V. METHODOLOGY

The study targeted manufacturing companies in Nakuru County which were members of the Kenya Association of Manufacturers (KAM). The association had 29 members at the time of study. Since the population was not too big, a census of the companies was taken for the purpose of the study. A questionnaire was used to get the required data from top managers of

the firms. Out of the twenty nine questionnaires distributed, only 18 were filled and returned, thus representing a return rate of 62% which was deemed to be good enough for the study. The data collected was coded and analyzed with the help of Statistical Packages for Social Scientists (SPSS) version 17 computer programme. Measures of dispersion were used to evaluate the influence of competitive position factor on the choice of growth strategy. The findings were summarized and presented by use of frequency tables.

VI. RESEARCH FINDINGS AND DISCUSSIONS

Competitiveness of the Firm

The more the competitiveness of a firm, the more it is likely to engage in a specific strategy that outwits the others. Organizations develop strategies that the competitors find hard to emulate due to lack of resources. The resource base view (RBV) focuses on the firm and its resources, skills and capabilities. The resource can be in terms of strong financial base, innovations, strong customer base, brand name, product quality, etc. Firms that have these resources will definitely be more willing to advance in the areas of interest than the ones who don't have due to their incapability (Porter, 1980; Dess et al., 2005).

The respondents cited market power, financial base of the firm, human resource, and government incentives as main influencers to choosing a particular strategy. 100% of the respondent cited financial base of the firm as the most critical aspect that determines which strategy to choose. The results indicated that the financial stability of a firm is a major factor considered before a certain growth strategy is adopted (100%). This is because quite a number of growth strategies can be highly expensive and thus only highly competitive firms in terms of financial ability can be able to adopt them. For example, the formation of a merger or purchase of new technological equipment can be a costly affair and not all firms have the required finances to go for such even though the anticipated outcome might seem good. This thus implies that the competitiveness of a firm, particularly financially, plays a critical role in its choice of a growth strategy.

VII. CONCLUSION

This study concluded that the more a firm is competitive, the more it is bound to take up a certain strategy depending on the available resources. Resources have hindered many firms from taking up a desired strategy to one that is affordable even though it might not have been on the firm's number one priority list. Some strategies are extremely costly hence; firms that don't have the resources required will miss out on setting up a growth strategy. Most of the resources handicapped firms thereby opt for second option. There is thus a direct correlation between competitiveness of a firm and choice of strategy.

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