

**ASSESSMENT OF THE INFLUENCE OF COMPETITIVE STRATEGIES ON  
THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM DAIRY  
PROCESSORS IN NAIROBI COUNTY**

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## DECLARATION

I, the undersigned, declare that this thesis is a product of my own work and is not the result of anything done in collaboration. It has not been previously presented to any other Institution. All sources have been appropriately cited and duly acknowledged in full. I agree that this thesis may be available for reference and photocopying at the discretion of the University.

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## **DEDICATION**

This research work is dedicated to my parents Nthenya and Mwangangi, who instilled in me the discipline of education from an early age, and taught me the value of commitment and hard work in studies.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>FAO</b>	Food and Agriculture Organization
<b>FAOSTAT</b>	Food and Agriculture Organization Statistics
<b>GDP</b>	Gross Domestic Product
<b>GOK</b>	Government of Kenya
<b>ICT</b>	Information Communication and Technology
<b>JIT</b>	Just in Time
<b>KAVES</b>	Kenya Agricultural Value Chain Enterprises
<b>KDB</b>	Kenya Dairy Board
<b>KNBS</b>	Kenya National Bureau of Statistics
<b>KPMG</b>	Klynveld Peat Marwick Goerdeler
<b>MALF&amp;I</b>	Ministry of Agriculture, Livestock, Fisheries & Irrigation
<b>MOLD</b>	Ministry of Livestock Development
<b>NACOSTI</b>	National Council for Science, Technology, and Innovation
<b>NCC</b>	Nairobi City County
<b>NCIDP</b>	Nairobi County Integrated Development Plan
<b>NCPD</b>	National Council for Population and Development
<b>NDS</b>	National Dairy Strategy
<b>NKCC</b>	New Kenya Cooperative Creameries
<b>R &amp; D</b>	Research and Development
<b>RBV</b>	Resource-Based View
<b>SACCOS</b>	Savings and Credit Cooperative Societies
<b>SDGs</b>	Sustainable Development Goals
<b>SMEs</b>	Small and Medium Enterprises
<b>SPSS</b>	Statistical Package for Social Sciences
<b>SSA</b>	Sub-Saharan Africa
<b>TQM</b>	Total Quality Management
<b>TSE</b>	Tehran Security Exchange
<b>UBOS</b>	Uganda Bureau of Statistics
<b>USAID</b>	United States Agency for International Development
<b>USDA</b>	United States Department of Agriculture

## OPERATIONAL DEFINITIONS OF TERMS

The following definitions were adopted for purposes of the study:

<b>Assessment</b>	This refers to the art of relating the research instrument to the dairy firms to establish if the generic strategies of Porter have influence on the performance of the dairy firms.
<b>Cost Leadership</b>	A position attained by an industry which uses a number of strategies to produce at a lower cost and offer its products to customers at a lower price in relation to competitors
<b>Differentiation</b>	A strategy of making products and services unique and offering them to customers at a premium price
<b>Financial Performance</b>	It is the ability of a firm to achieve its set goals. In this study financial performance will be measured in terms of growth in sales volume.
<b>Focused Strategy</b>	A set of activities used by an enterprise to allow it to serve a particular segment of an industry
<b>Generic Competitive Strategies</b>	These are plans of action developed by Porter in 1985 to enable the firm that adopts them to achieve competitive advantage. They are applicable to a variety of situations and contexts.
<b>Hybrid Competitive Strategies</b>	This term is used when the strategies of cost leadership and differentiation are simultaneously adopted by a firm. The two strategies are integrated/mixed by the firm which desires to realize competitive advantage.
<b>Influence</b>	This is the ability of the generic strategies of Porter to have effect on, or cause the dairy firms to perform in a particular way - either better or

worse or to have no change in performance at all.

**Large scale Processors**

According to USAID Feed the Future (2018), these are firms which process more than 100,000 litres of milk per day, and deal mainly in products with a long shelf-life.

**Pure Strategies**

This refers to Cost leadership, Differentiation, and Focus strategies when implemented by an enterprise exclusively (independent of each other) in order to gain competitive advantage.

**Small and Medium Processors**

These are dairy firms which process less than 100,000 litres of milk per (USAID Feed the Future, 2018). They process products of high value like cream and ghee, flavoured and cultured milk, and probiotic yoghurt.

**Strategy**

This is a plan of action which is crafted to achieve a set objective. It is an adopted course of action supported by the allocation of the necessary resources for the purpose of carrying out and achieving the set goals. A strategy links the firm and its environment in pursuit of competitive advantage.

## ABSTRACT

The dairy industry in Kenya plays an important role in the creation of employment and food security. It is one of the major drivers which the country is using to achieve the Sustainable Development goals and Kenya Vision 2030. The success of the sector however, is dependent on the ability of the different firms to improve performance through gaining a competitive edge that is sustainable. The main purpose of this study was to find out the competitive strategies used by small and medium dairy processors in Nairobi County, and to assess the influence the competitive strategies have on the financial performance of the firms. Specifically, the study sought to find out the competitive strategies used by small and medium dairy processors in Nairobi County, assess the influence of cost leadership strategy on the financial performance of small and medium dairy processors in Nairobi County, evaluate the effect of differentiation on the financial performance of small and medium dairy processors in Nairobi County, establish the influence of cost focus on the financial performance of small and medium dairy processors in Nairobi County, and determine the effect of differentiation focus on the financial performance of small and medium dairy processors in Nairobi County. The study used a descriptive survey research design, and a census of the firms. Questionnaire was the key instrument of data collection. The data collected was analyzed using descriptive statistics. The summarized information was presented using tables and charts. The study found out that the dairy enterprises had adopted the differentiation strategy more than the cost leadership, cost focus and differentiation focus strategies as represented by 32% of the respondents. Additionally, from the findings of the study, 67.5% who were the majority of the respondents indicated that cost leadership had influence on the performance of the firms to a moderate extent, while 62.7% agreed that differentiation strategy influenced performance to a very large extent. Cost focus strategy with 31.3% majority and differentiation focus strategy with 44.5% majority also had influenced the performance of the firms positively to a moderate and large extent respectively. This implies that the adoption of Porter's generic strategies influences the performance of firms. The study concluded that firms use more of the differentiation strategy since it had more influence on sales growth than cost leadership, cost focus, and differentiation focus strategies. It is recommended that a longitudinal and inferential study be carried out on a larger study population of the small and medium dairy firms, which extends beyond Nairobi County. The study recommended that a replication of the study be carried out using more objective measures of performance like profits. The conclusions made from the study findings may be used by managers of both existing firms and new entrants into the industry, who may need to make decisions on what competitive strategies may be suited to their business in order to position themselves in the industry and to improve performance.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Introduction

The chapter begins with an insertion in which the researcher's experience as a dairy farmer is discussed. It then presents the background to the study, the statement of the problem, objectives of the study and research questions, the significance of the study, scope and delimitation of the study, limitations of the study, and finally gives a summary of the chapter.

#### 1.1.1 Insertion

As a dairy farmer, like many others, I have faced the challenge of post-harvest milk loss and low prices offered for unprocessed milk by cooperative societies. The magnitude of post-harvest milk loss in Kenya is shown by a report from Kenya National Bureau of Statistics (2018), which indicates that post-harvest milk losses in 2017 amounted to Ksh.12.4 billion which translates to 6% of the total production.

At the same time, projections indicate an increase of urban population to 43% and a consequent increase in demand for quality, safe, high-value processed milk and milk products by 2022 Kibogy (2018). As Kenya grows into a middle economy, there is a growing middle class population which is informed and health conscious, demanding clean, natural, and processed products which are free from artificial additives (Kibogy, 2018). The population also has a desire for healthy eating and functional foods with specific health and nutritional value like cultured milk, butter, cholesterol free products, and probiotic yoghurts (Kibogy, 2018).

Additionally, Kenya's population is characterized by increasing lifestyle diseases. For instance, research shows that more than 50% of the total number of people admitted in hospitals and over 55% of hospital deaths are attributed to lifestyle diseases (Ministry of Health Kenya, 2015). Every year about 28,500 Kenyans are diagnosed with cancer (National Council for Population and Development, 2017). The advent of these lifestyle diseases is attributed to economic transition, rapid urbanization, and unhealthy diets (NCPD, 2019).



LoretoFarm will take advantage of the existing environment of a health-conscious population, bulk up the milk of small scale farmers in Karen, and process it into Probiotic Yoghurt which has health benefits that curb life-style diseases and promote wellness. The firm will adopt differentiation as a market entry and growth strategy.

## **1.2 Background to the Study**

Present day globalization has led to heightened competition among business firms (Kinyanjui et al., 2016), and created a business environment that is turbulent and highly competitive (Schwab, 2019). Consequently, firms are forced to find unique ways of creating and sustaining competitiveness for their survival (Laban et al., 2019). According to Omari et al., (2016), the desired competitiveness can be achieved by developing competitive strategies. To remain profitable, firms have therefore become more aggressive in developing the appropriate competitive strategies (Nyambane et al., 2018), and are paying a lot of attention to the quality of products, costs of production, and supply chains (International Trade Centre, 2019).

Competitive strategies are explained by Rono (2015) as the approaches that a firm takes to gain a desired market position and hence achieve a competitive advantage over its competitors. This is in agreement with Porter (1980) whose theory explains that the aim of competitive strategies is to give an enterprise profits which are above average. Safaricom (2019) equally posit that firms that adopt carefully selected competitive strategies usually have competitive advantage and hence improved performance. A business that adopts strategies that are difficult to replicate achieves competitive advantage and has higher chances of being more profitable than competitors (Abubakar et al., 2019). Consequently, a number of strategy profiles such as those of Parnell (2002), Hooley and Greenley (2005), Spanos and Lioukas (2001), Hayes and Schmenner (1978), White (2004), Miles and Snow (1978), and Porter (1980) among others have been advanced and empirically tested (Atikiya, 2015; Mukhezekule et al., 2019; KPMG, 2019).

### **1.2.1 Competitive Strategies and the Performance of Firms**

The concept of relating competitive strategies to the performance of enterprises has been pursued by researchers such as Huang (2019), whose research findings indicate that competitive advantage is achieved by the firms which carefully allocate resources

to support their core business. The competitive strategies of Porter (1980) are noted as some of the most studied, and as contributing a lot to the literature of strategic management, and to the concept of improved performance of firms (Atikiya 2015). To this end, Porter (1980) proposed that a firm will gain competitive advantage through the implementation of the competitive strategies of low cost leadership, differentiating itself in an industry, and focusing on a market segment. Porter (1985) further asserted that the above strategies could help a firm to gain competitive advantage which is sustainable, a concept which KPMG International (2019) and Hosseini et al. (2018) define as the creation and maintenance of continuous benefits over a prolonged period of time.

Although Porter (1985) predicated that superior performance is achieved through the adoption of Pure Strategies as opposed to adopting Hybrid Strategies, studies by Kaliappen (2018), Slijper (2017), and Njuguna (2015) indicate that Hybrid Strategies had more influence on performance than Pure Strategies. In addition, Kinyanjui et al. (2016), assert that Porter's generic strategies do not have the same effect in all industries. This finding is similar to that of a study by Kerama et al. (2019) which established that differentiation is more suited to e-business than other businesses. A study by Njuguna (2015) also found out that cost leadership strategy was not an effective strategy for multinationals. It is on the basis of these different findings that this study is carried out.

Porter (1980) further studied the relationship between the environment of an enterprise and its performance, and established that the performance of the firm was highly dependent on its environment to a large extent. Bukirwa (2017) also found out that a strategic fit between the firm and its environment is a necessity for superior performance. In the present day highly competitive environment, small and medium firms will need to understand the environment in which they are operating in order to formulate competitive strategies that can improve performance. However, research shows that SMEs pay little attention to strategy formulation and implementation (Kerama et al., 2019). Therefore, this study also endeavored to find out if small and medium dairy processors were using competitive strategies.

### **1.2.2 Overview of the Dairy Industry**

The global dairy industry is characterized by large, medium and small scale enterprises, and plays a major role in the economies of the different nations Herr et al. (2017). Currently, there is an increasing demand for dairy products due to factors such as consumption spending by middle class consumers, rising populations, urbanization, and changing diets in favour of processed dairy products (Vitaliano, 2016). According to Food and Agriculture Organization Statistics (FAOSTAT, 2016) this global demand is expected to increase by 2.5% per annum by 2020.

However, the global performance of the dairy industry has been declining (United States Department of Agriculture, 2019) due to factors such as reduction of market share, reduced profits, loss of customer satisfaction, stiff competition, and lack of appropriate management strategies (Mighty, 2016).

Africa's dairy sector has in the past been largely owned by the respective governments, with little private sector involvement (Ministry of Agriculture, Livestock, Fisheries and Irrigation, 2019). Since the liberalization of economies in the continent, there has been extensive expansion of small and medium dairy enterprises and their related infrastructure (USDA, 2019). Demand for dairy products in the continent is also increasing due to population and economic growth, increased urbanization, and adoption of Western eating habits (Ministry of Agriculture, Livestock, Fisheries and Irrigation, 2019). As peoples' incomes in Africa increase, their demand for greater food variety, higher value products, and better quality processed dairy products also increases (European Commission, 2019).

Kenya's dairy industry, in comparison with other nations, is one of the largest in Sub-Saharan Africa (Bonilla et al., 2018). The industry is important in the economy of Kenya as it accounts for 14% of the nation's agricultural Gross Domestic Product (GDP), and between 6-8% of the country's GDP (Food and Agriculture Organization, 2019; Feed The Future, 2018). Studies show that the sector provides food to the population (Chege et al., 2017). Further, the sector is a major source of employment and income to a large majority of Kenyans (Kamande, 2015), and provides a ready market for the raw milk produced by dairy farmers. One key strategy of the

Government of Kenya is export since the country has the largest milk production in the continent after South Africa (Feed the Future, 2018).

Since Kenya's dairy sector was liberalized in 1992, the number of dairy processing firms has increased tremendously (Ministry of Agriculture, Livestock, Fisheries and Irrigation, 2019). A lack of appropriate strategies to manage most firms led to shortcomings which created openings for small and medium processors and a large informal sector which deals in raw milk (Bonilla et al., 2018). Bonilla et al. (2018) add that this situation has led to stiff competition in the industry, and constraints that inhibit growth such as low prices for raw milk, post-harvest milk losses, and lack of competitiveness. Consequently, some firms like Ilara Dairy, Spin Knit Dairy, Buzeki Dairy Ltd., and Delamere Dairies have been bought off by Brookside Dairies (Abiero et al., 2016).

The sector is characterized by a small number of large dairy enterprises and many small and medium dairy firms (Feed the Future, 2018). The Kenya Dairy Board (KDB), which governs the industry, is mandated to work for the improvement and control of the products of the sector (Kiema, 2015). The industry consists of 29 milk processors, 67 Mini dairies, and a large informal sector (Kibogy, 2018). The industry is dominated by five large scale dairies: Brookside Dairies, New Kenya Cooperative Creameries (NKCC), Githunguri Dairies, Kinangop Dairies, and Meru Dairies, all of which process up to or more than 100,000 litres of milk per day (USAID-KAVES, 2015; Feed the Future, 2018).

Kenya's Small and Medium dairy sector consists of private processors which collectively control 31% of the market (Feed the Future, 2018). This sector serves a particular market segment as a way of avoiding direct competition with the large and well established dairy firms (Feed the Future, 2018). The sector is consequently associated with niche, high value, and unique products that target the high income earners (Feed the Future, 2018). To avoid being crowded out by the larger dairy firms, the small and medium dairy firms have opted to process products that respond to the changing demand patterns of the expanding middle income population of the country (Feed The Future, 2018).

### **1.2.3 Overview of Nairobi County**

Nairobi County, one of the 47 Counties of Kenya, has a total area of 696.1 km<sup>2</sup>, 17 sub-counties, and 85 Wards (Nairobi County Integrated Development Plan, 2018-2022). Information obtained from the Kenya National Bureau of Statistics (2019) indicates that the population of the County was 4.4 million in 2019, which is expected to rise to 5,958,338 people by 2022. The County is heavily industrialized with diverse commercial activities (Nairobi County Integrated Development Plan, 2018).

The road network in Nairobi County is in poor state, which impedes socio-economic growth, leading to high production costs and low productivity (NCIDP, 2018). According to the Development Plan (NCIDP, 2018), the county is the highest provider of formal employment with the manufacturing industry, trade, and restaurants being the highest employers of the 453,000 people in formal employment. The Plan further indicates that a total of 1,548,100 people are self-employed in the informal sector. The level of un-employment in the county stands at 14.70%, with female and male unemployment standing at 18.99% and 11.5% respectively (NCIDP, 2018).

In Nairobi County, NKCC is the dominant large scale processor, controlling 35% of the raw milk market (Andae, 2018). The County also boasts of a large number of small and medium dairy processing firms (NCIDP, 2018). Large dairy processors are the firms that handle up to or more than 100,000 litres of milk per day (Feed the Future, 2018); while the small and medium dairy processors handle less than 100,000 litres of milk per day.

### **1.3 Statement of the Problem**

Urbanization and liberalization exposes firms to competition (Mighty, 2016), which ensures that consumers have a wide selection of goods and services, wider markets, better quality products, more investments, lower prices, and better living standards (Food and Agriculture Organization, 2019). Competition is therefore accepted as the best available mechanism for maximizing the things that one can demand from an economic system and should be stimulated and maximized (Jones et al., 2019). However, trade liberalization has led to stiff competition in the world (Mighty, 2016).

In Kenya liberalization has led to an increase in the number of dairy firms (Ministry of Agriculture, Livestock, Fisheries and Irrigation, 2019), and an upsurge of small scale milk vendors, milk hawkers, milk bars, and Supermarket dispensers (Chege et al., 2017). Additionally, a large informal sector which handles about 88% of the milk produced leaving only 12% to the processors (Bonilla et al., 2018) has heightened the competition; not to mention that the informal sector outcompetes the formal sector by selling its raw milk at prices that are 22% lower than in the formal market (Abiero et al., 2016; Chege et al., 2017).

Consequently, stiff competition has led to the global decline in the performance of dairy firms, reduction in market share, loss of customer satisfaction, high production costs, and poor pricing (Chege et al., 2017). Similarly, in Kenya stiff competition has seen Brookside Dairies dislodge NKCC as the market leader in the dairy processing industry (Abiero et al., 2016). The industry has also witnessed high profile acquisitions of firms like Ilara Dairy, Spin Knit Dairy, Buzeki Dairy Ltd., and Delamere Dairies by Brookside Dairies which is the leading processor (Abiero et al., 2016). Additionally, some dairy processors have exited the market due to stiff competition - since 1992, 42 processors have been licensed by KDB (Ministry of Agriculture, Livestock, Fisheries and Irrigation, 2019), but only 29 processors are in operation (Kibogy, 2018).

The National Dairy Development Policy envisions Kenya as a net exporter of milk by 2030 (Feed the Future, 2018). In addition, the country expects the dairy industry to greatly contribute to the delivery of the Big Four Developmental agendas of the Government of Kenya and Sustainable Development Goal 2 (SDG 2) by contributing to the food security and manufacturing pillars (Kibogy, 2018). Projections indicate an increase of urban population to 43% and a consequent increase in demand for quality, safe, high-value processed milk and milk products by 2022 (Kibogy, 2018). However, projected domestic production is unable to meet 2022 projected demand by 1.28 billion litres, and current exports are low (Feed the Future, 2018). Kenya will therefore have to significantly increase production and processing capacity and value addition (Feed the Future, 2018).

Case studies on large scale dairy processors have shown that the firms have adopted Porter's generic strategies to counter competition and that the strategies influence performance. These findings cannot be generalized to the small and medium dairy processors. Consequently, little is known in relation to the smaller processors and the adoption of the competitive strategies. This research therefore sought to assess if the small and medium dairy processors have adopted the generic competitive strategies, and the influence the competitive strategies have on their financial performance.

#### **1.4 Objectives of the Study**

The study proposed the following objectives:

##### **1.4.1 General Objective**

To assess the influence of competitive strategies on the financial performance of small and medium dairy processors in Nairobi County.

##### **1.4.2 Specific Objectives**

The study was guided by five specific objectives:

- a) To find out the competitive strategies adopted by small and medium dairy processors in Nairobi County
- b) To assess the influence of cost leadership on the performance of small and medium dairy processors in Nairobi County
- c) To evaluate the effect of differentiation on the performance of small and medium dairy processors in Nairobi County
- d) To establish the influence of cost focus on the performance of small and medium dairy processors in Nairobi County
- e) To determine the effect of differentiation focus on the performance of small and medium dairy processors in Nairobi County.

#### **1.5 Research Questions**

The study will answer the following questions:

- a) What strategies have the small and medium dairy processors in Nairobi County adopted?

- b) How does Cost Leadership strategy influence the performance of small and medium dairy processors in Nairobi County?
- c) What is the effect of differentiation on the performance of small and medium dairy processors in Nairobi County?
- d) To what extent does cost focus influence the performance of small and medium dairy processors in Nairobi County?
- e) What effect does differentiation focus have on the performance dairy cottage industries?

### **1.6 Significance of the Study**

Findings from the study may be used by the managers of small and medium dairy processors to provide them with knowledge on the specific strategies to focus on in order to gain and sustain a competitive edge over their rivals. Once adopted, the knowledge may lead to accelerated growth and put a check on the high failure rate of firms in the industry. Potential investors who apply the appropriate generic strategies may contribute to an increase of economic activity in the country. This may lead to an increase in GDP and higher national incomes through the taxes collected from the firms. The Government of Kenya too, may find this research a useful source of information when formulating policies. The research will also be an empirical source of reference for future studies by scholars.

### **1.7 Scope and/Delimitation of the Study**

The current cross sectional study sought to find out if Porter's generic strategies had influence on the financial performance of small and medium dairy processors in Nairobi County. Cost leadership, differentiation, cost focus, and differentiation focus were the independent variables studied. The small and medium dairy processors in Nairobi County formed the scope of the study, and only dairy firms which were registered with the Kenya Dairy Board were considered. The reason for focusing the study on small and medium dairy processors was due to the fact that previous Cross sectional case studies (Chege et al., 2015; Chege et al., 2017; Somba, 2016) focused only on large scale processors, meaning that little is known about small and medium scale dairy processors. Additionally, more than 80% of the small and medium dairy



processors are concentrated in Nairobi County (Kenya Dairy Board, 2018), so the county was chosen as the area of study.

### **1.8 Limitations of the Study**

A key limitation that was experienced in the study was lack of cooperation from the respondents. Some were not willing to disclose information on performance since they feared that it could be used against them by competitors. However, to overcome this limitation the researcher impressed on the participants that the study would put together all the findings from the various firms, summarize them, and present them collectively, hence no data related to individual enterprises would be available. An additional limitation was that the study considered Nairobi County only. Thirdly, the study was cross-sectional and used a Census survey of the 19 small and medium dairy firms in Nairobi County. However, since the research studied all the small and medium dairy processors in Nairobi County, its findings could be generalized to apply to all small and medium dairy processors in Kenya.

### **1.9 Summary of the Chapter**

The chapter firstly, presented the background to the problem, discussed the statement of the problem, identified the knowledge gap from previous studies, and highlighted the objectives of the study. Following, it discussed the significance and scope of the study, and lastly, gave the limitations of the study. The second chapter presents a review of the literature on the influence of competitive strategies on small and medium dairy processors in Nairobi County.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter presents a review of literature on the effect of competitive strategies on small and medium dairy processors in Nairobi County. On the onset, it analyses the Resource Based View, and Porter's generic competitive strategies. The relevance of Porter's generic strategies to the current study is explored, and an analysis of the influence of the strategies on the performance of firms done in the empirical literature review. A critique is given on the existing literature, followed by a presentation of the research gap, and the conceptual framework. A summary of the discussion closes the chapter.

#### **2.2 Theoretical Literature Review**

The current study was based on the concept of competitive advantage – a concept which can be realized through the adoption of competitive strategies. Several authors have expressed the concept in different ways. For instance, Kariuki et al. (2017) view it as a focus on customers, research and development, and brand loyalty which exceed those of competing firms, while Ceglinski, (2017) discusses it as the achievement of more profits by a firm in comparison to other firms in the market. Similarly, Hosseini et al. (2018) also define the concept as that value offered to customers which is more than the price the customers pay for the products, while Sigalas (2015) expresses it as the properties that give a firm a competitive edge over others.

Porter (1985), whose strategies form the basis of this study, presents the concept of competitive advantage as the competitive strategies which give a firm a superior position in the competitive market. It is the value or benefit a firm creates for its customers which exceeds that of competitors - a conglomeration of the attributes and strategies which allow a firm to outperform its competitors, create, and sustain superior and above average performance in an industry (Porter, 1985). A firm that adopts such strategies over a long period of time gains sustainable competitive advantage Porter (1985).

Two theories that advance the concept of competitive advantage are the Resource Based View (RBV) and the generic competitive strategies advocated by Porter. The current study is anchored on the theory of the four Generic Competitive Strategies of Porter because the strategies focus on both the internal environment and the external competitive environment as opposed to the Resource Based View which tends to focus more on the internal environment of the resources of the firm. Consideration of the two environments in the formulation of competitive strategies is essential in achieving competitive advantage.

### **2.2.1 The Resource Based View (RBV)**

The RBV theory has been used in examining the competitive advantages of businesses in the market. According to Huang et al. (2015) the theory was introduced in the 1980s by Wernerfelt (1984) and Barney (1986) among others. The RBV sees resources as key to superior firm performance and as effective approaches to achieving sustainable competitive advantage (Huang et al., 2015). For this, the resources must be valuable, rare, imperfectly imitable, and not substitutable (Kasongo et al., 2019).

The proponents of the strategy justify the RBV by arguing that a firm should look inside to find the sources of competitive advantage instead of looking at the competitive environment for it (Huang et al., 2015). Consequently, the RBV has been criticized by Solesvik (2018) as ignoring the external market conditions and concentrating on the internal environment only. Indeed, Atikiya (2015) asserts that in the formulation of strategies the external and internal elements cannot be separated. Additionally, Atikiya (2015) argues that to achieve competitive advantage, there must be a link between the individual firm and the network of relationships in which the firm is embedded. Conclusively, for a firm to gain competitive advantage it has to pay attention to its external position, as well as its internal capabilities as interactive elements that can create competitive advantage (Dayuan et al., 2017).

Therefore, the RBV, on its own, is not well suited to form the basis for this study because it does not consider the external environment of a firm. Instead, Porter's generic strategies support this study better since they focus on the formulation of strategies in the internal environment, while at the same time considering factors in

the external competitive environment. However, in the adoption of the generic strategies, a firm would still need to give consideration to the RBV and ensure it has distinctive resources and capabilities that are valuable, rare, imperfectly imitable, and not substitutable.

### **2.2.2 Porter's Generic Competitive Strategies**

The strategies were proposed by Porter (1985) as guidelines which organizations could implement with the intention of gaining competitive advantage (Porter, 1985). Bayraktar et al. (2017) assert that a business will achieve competitive advantage when it possesses attributes which enable it to perform better than its competitors, either through offering better benefit or greater value than its rivals. Such a firm then achieves superiority over its competitors, and stays ahead of competition. In relation to this, Porter (1985) asserts that there are two primary strategies which an organization can adopt to gain competitive advantage: Cost Leadership, and Differentiation (Karyani et al., 2018).

The two competitive advantages have to be achieved within a scope of activities. When the advantages are combined with this scope of activities what is realized is the three generic strategies of cost leadership, differentiation, and focus (Subrahmanyam, et al., 2019). The scope of the operations of a firm further determines the two other strategies of Cost Focus and Differentiation Focus (Dombrowski et al., 2018). This leads to the four generic competitive strategies - Cost Leadership, Differentiation, Cost Focus, and Differentiation Focus. A firm therefore chooses the competitive advantage to adopt and the scope in which to operate (Dombrowski, et al., 2018; Porter, 1985). The strategies are illustrated in Figure 2.1.



**Figure 2.1: Porter's Competitive Strategies Porter (1985)**

Retrieved from <https://mindtools.com>

### 2.2.2.1 Cost Leadership Strategy

These are all the activities taken to produce goods and services at a low cost and to provide them to customers in a broad scope at a price that is lower than that of competitors (Yuliansyah et al., 2018; Tan, 2017). Thus the firm that uses this strategy appeals to the cost conscious and price sensitive customers. According to Lindstad et al. (2016), cost leadership targets to minimize and eliminate costs through the production of high volumes of low cost standardized goods which are offered to a large customer base. The basic assumption of cost leadership is that the organization is a cost leader, and sells at a discount while still generating a profit (Salavou, 2015; Soltanizadeh, 2016).

Cost Leadership strategy has several risks, one of them being lower customer loyalty (Joma et al., 2017) since price sensitive customers may switch to those competing firms which begin to offer lower priced substitutes. Additionally, Joma et al. (2017) assert that reputation as a cost leader may be associated with low quality, making the firm lose the customers who value quality. A third limitation of cost leadership is the fact that an organization can pay a lot of attention to cost reduction to a point of ignoring changes in consumer tastes and preferences (Joma et al., 2017). This will have the adverse effect of reducing the demand for the particular product. A fourth risk of cost leadership, according to Joma et al. (2017) is that competitors can easily

copy the strategies of the cost leader and use them to become the new cost leader in the market.

#### **2.2.2.2 Differentiation Strategy**

According to Subrahmanyam et al. (2019) an enterprise can use differentiation as a strategy to achieve competitive advantage. In implementing this strategy, an enterprise identifies the specific attributes which are valued by buyers in the industry and then develops strategies on how to uniquely position itself to meet those needs (Dombrowski et al., 2018). A premium price for this uniqueness is charged by the firm. According to Pehrsson (2016), the key characteristic of the strategy is perceived quality. When the firm succeeds to differentiate itself in attributes that are different from its rivals – for instance in service, quality, style, design, or product features - it becomes the differentiated leader in those particular aspects (Karyani et al., 2018).

One challenge with the Differentiation strategy is the firm's ability to sustain its perceived uniqueness in the eyes of consumers. The firm risks loss of its market position if competitors successfully copy its products' uniqueness (Joma et al., 2017). Secondly, when the cost of differentiation becomes too high as compared to that of the low cost competitor, customers may give up brand loyalty and abandon the differentiated products for the large cost saving products (Joma et al., 2017).

#### **2.2.2.3 Cost Focus Strategy**

The third strategy advanced by Porter (1985) is Cost Focus. This strategy chooses a narrow competitive scope within an industry (Muia, 2017). The focuser selects a segment or group of segments in the industry and tailors its activities to serving them to the exclusion of others (Onyeaghala et al., 2018). In cost focus a firm seeks a cost advantage in its target segment, and exploits differences in cost behavior in those segments (Atikiya, 2015).

#### **2.2.2.4 Differentiation Focus Strategy**

A firm that adopts the differentiation focus strategy is known to seek differentiation in a target segment (Atikiya, 2015). It identifies the special needs of buyers in the

particular target segment, and designs products exclusively for the satisfaction of the needs of the focused market segment (Muia, 2017).

### **2.2.3 Relevance of Porter's Generic Competitive Strategies to the Current Study**

The competitive strategies advanced by Porter give an organization an option of choosing the strategy it finds suitable. So a firm can decide to be a low cost producer, or to differentiate itself as a producer of unique products, or to focus on meeting the needs of a segment in the market. The crafting of the appropriate generic strategy is done in consideration of the internal resources and capabilities the firm has, the external competitive environment, and the competitive position the particular firm envisions. The study will assess the influence of competitive strategies on the financial performance of small and medium dairy processors based on Porter's generic strategies. To achieve this, aspects in the internal and external environments will be considered. Consequently, the findings will reflect the performance of the enterprise in the competitive environment.

## **2.3 Empirical Review of Literature**

This section reviews past studies done in relation to the influence of the competitive strategies of Porter on the performance of enterprises.

### **2.3.1 Influence of Generic Strategies on the Performance of Firms**

In order to determine the influence of the generic strategies of Porter on the performance of small and medium enterprises in Nairobi Central Business, Omar (2017) carried out a descriptive correlation design study. The findings showed that all the generic strategies contributed in a positive way to the performance of the SMEs.

An inferential study was carried out by Pulaj et al. (2015) with the aim of establishing the relationship between the generic competitive strategies and the performance of construction firms in Albania. The findings of the study confirmed that a significant positive relationship existed between cost leadership, differentiation and focus strategies on the performance of the construction firms.

Also, a study by Asena (2019) on the effect of Porter's generic strategies on the performance of mobile telecommunication companies in Kenya found out that all the

strategies of cost leadership, differentiation and focus positively impacted the performance of the organizations studied.

A descriptive and cross-sectional study carried out by Ombuki et al. (2018) on the influence of competitive strategies on the performance of media houses in Kenya indicated that all the pure strategies (cost leadership, differentiation and focus) had significant influence on the performance of the firms.

An empirical study carried out by Bayraktar et al. (2017) sought to establish if there is a relationship between competitive strategies and the performance of Turkish manufacturing companies. The findings showed that the adoption of a combination of cost leadership and differentiation strategies (hybrid strategies) increased the performance of enterprises.

In their study on Generic strategies and the performance of the micro-enterprises in the Kenyan informal sector, Mungai et al. (2017), and Kinyanjui et al. (2016) found that unlike findings from medium and large enterprises, a combination of Cost Leadership and Differentiation strategies did not lead to better business performance in the informal sector. The study concluded that all strategies do not have the same effect in all industries. This is confirmed by Kerama et al. (2019) whose study concluded that the differentiation strategy was more suited to e-business, while Njuguna (2015) established from his study that cost leadership as a strategy was not suited to multinationals.

### **2.3.2 Influence of Cost Leadership Strategy on Firm Performance**

A study carried out by Subrahmanyam et al. (2019) to establish Carrefour's Competitive Strategy indicated that Cost Leadership strategy had more influence on the firm's achievement of competitive advantage than differentiation strategy.

Similarly, findings from a study by Mohamed et al. (2019) on the effect of cost leadership strategy on the performance of medium scale miners in Taita Taveta County in Kenya indicated that the strategy influenced the performance of the enterprises in the industry.



Further, a study by Marangu et al. (2017) on the influence of cost leadership on the competitiveness of Sugar Firms in Kenya established that the strategy had a significant influence on the firms and concluded that sugar firms strive to adopt more of the strategy. Additionally, a study on Equity Bank in Kenya by Bundi (2017) to find out the influence of competitive strategies on the banking industry indicated that cost leadership had a great impact on the performance of the bank.

### **2.3.3 Influence of Differentiation Strategy on the Performance of Firms**

In the Kenyan economy, a number of studies on the influence of Differentiation strategy on the performance of firms in different sectors of the economy have been carried out. For instance, Atikiya (2015) carried out a study on the manufacturing firms in Kenya with the aim of establishing the effect of competitive strategies on the performance of the firms. The results of the cross sectional research showed that the manufacturing sector had used competitive strategies to achieve competitive advantage, and that the strategies had a positive significant relationship with performance. Additionally, the study established that differentiation had the greatest impact on performance.

In the County of Mombasa in Kenya, Tuva (2015) carried out a study to establish if differentiation strategy had any effect on the performance of water bottling companies. A cross-sectional explanatory design was used. The study concluded that the relationship between the differentiation strategy and the performance of the companies was positive. Moreover, the study established that employing the strategy of product differentiation as opposed to service differentiation contributed more to achieving better outcomes in the companies that were studied.

The findings of a descriptive study carried out by Mita et al. (2017) on the influence of generic strategies on the performance of SMEs in the metal works sector in Naivasha town indicated that differentiation led to better performance of the firms. Additionally, a study by Obinna et al. (2018) on differentiation strategy and influence on business indicated that the relationship between the strategy and business performance was significant.

### **2.3.4 Influence of Focus Strategy on the Performance of Firms**

Odunayo (2018) carried out a study of telecommunication companies in Port Harcourt with the aim of assessing whether there is a relationship between the focus strategy of Porter and the performance of the firms in the study. The study outcomes showed that Market focus strategy had a significantly positive influence on the companies' competitiveness. The study further recommended that firms focus on a narrow segment and endeavor to attain cost advantage or differentiation advantage in the segment.

### **2.3.5 Influence of Generic Strategies on Performance in the Dairy Industry**

In an effort to establish whether there is a relationship between the generic strategies of Porter and the financial performance of enterprises, Slijper (2017) carried out a study on European investor-owned dairy processors. The study concluded that the strategies had a positive influence on financial performance, but that hybrid strategies outperformed pure strategies.

In the dairy industry in Kenya, Chege et al. (2015) attempted to establish the effect of generic strategies on the performance of New KCC in Kenya. The study found out that product differentiation, focusing on major milk consumers, and a lowered cost of production led to increased volume of sales.

Somba (2016) carried out a study of Kinangop Dairy Ltd. to establish which marketing strategies the dairy industry could adopt to improve its competitiveness. A descriptive case study design was used, and the findings indicated that cost leadership and differentiation could be used because they improved a firm's competitiveness and hence performance.

Similar findings were established by a study carried out by Chege et al. (2017) which attempted to establish how the competitive strategies related with the performance of large dairy firms in Kenya. The results of the research indicated that the generic strategies had a positive and significant influence on the performance of the large dairy firms.

The empirical studies and study variables are summarized in table 2.1.

**Table 2.1: Summary of Empirical Studies and Study Variables**

Empirical Study		Type of Competitive Advantage (study variable)			
Author's Name, Year	Sector/ Industry	Cost Leadership	Differentiation	Cost Focus	Differentiation Focus
Subrahmanyam, et al. (2019)	Retail	✓	✓		
Atikiya (2015)	Manufacturing	✓	✓	✓	✓
Tuva (2015)	Water Bottling		✓		
Slijper (2017)	Dairy Processors (Europe)	✓	✓	✓	✓
Pulaj et l. (2015)	Construction	✓	✓	✓	✓
Bayraktar et al. (2017)	Manufacturing	✓	✓		
Mita et al. (2017)	Metal Works	✓	✓	✓	✓
Omar (2017)	SME Nairobi Central Business	✓	✓	✓	✓
Mungai et al. (2017)	Informal sector	✓	✓	✓	✓
Njuguna (2015)	Multinationals	✓	✓		
Mohammed et al. (2019)	Miners	✓	✓	✓	✓
Asena (2019)	Mobile Telecommunication	✓	✓	✓	✓
Marangu et al. (2017)	Sugar Firms	✓	✓		
Chege et al. (2015)	Dairy – NKCC	✓	✓	✓	✓
Odunayo (2018)	Telecommunication Companies				
Chege et al. (2017)	Large Dairy Firms	✓	✓	✓	✓
Bundi (2017)	Banking Industry				✓
Ombuki et al. (2018)	Media	✓	✓	✓	✓
Obinna et al. (2018)	Business		✓		
Somba (2016)	Kinangop Dairy	✓	✓	✓	✓
Kaliappen (2018)	Hotel Industry	✓	✓		
Njuguna (2015)	SMEs	✓	✓	✓	✓
Kinyanjui et al. (2016)	Manufacturing	✓	✓	✓	✓
Kerama et al. (2019)	Transport	✓	✓	✓	✓

## **2.4 Critique of the Existing Literature**

Empirical studies on the generic strategies of Porter and the influence they have on the performance of firms in the different sectors of the economy are in agreement that the adoption of the strategies has an influence on the firms which is positive and significant (Mita et al., 2017). However, there are variations in some of the findings. For instance, a study by Subrahmanyam et al. (2019) indicates that the strategy of cost leadership has more influence on performance than the differentiation strategy, while the study of Atikiya (2015) indicates the opposite.

Secondly, while the theory of Porter (1985) recommended the adoption of pure strategies since they were found to have more positive influence on the performance of firms than hybrid strategies, studies by Slijper (2017), Bayraktar et al. (2017), Njuguna (2015), and Kaliappen (2018), indicated that hybrid strategies had more influence on the performance of firms than pure strategies. Kinyanjui et al. (2016) also established from their study that all the strategies did not have the same effect in all industries. This is supported by Kerama et al. (2019) whose study established that the differentiation strategy was more suited to e-business, as Njuguna (2015) argues that cost leadership is not suited to multinationals.

## **2.5 Research Gap**

Firstly, most of the studies that relate competitive strategies and the performance of dairy firms in Kenya have been carried out on large firms which process more than 100,000 litres of milk per day (Chege et al., 2017). These large firms have a large market share as opposed to the small and medium dairy enterprises. For instance, Brookside, which is the largest dairy processor in Kenya controls 40% of the milk market (Andae, 2018). The company has engaged in acquisitions of competitors like Spin Knit Dairy Ltd in 2010, Buzeki Dairy Ltd in 2013, Daima in 2015, and Delamere Dairies in 2017 (Andae, 2018). The second largest milk processor - New KCC - has a 35% market share. Githunguri Dairy controls 10% of the milk market (Andae, 2018), while Kinangop and Meru Dairies collectively control a market share of 15% (Andae, 2018).

The findings of case studies on the large dairy processors (Chege et al., 2017; Chege et al., 2015) which control a large market share, cannot be generalized to the smaller

firms which are being outcompeted and bought by Brookside Dairies. Consequently, there was need for the present study on small and medium dairy processors, to establish the competitive strategies the firms have adopted, and the influence the strategies have on the performance of the firms.

Secondly, some past studies on the influence of competitive strategies on the performance of firms in other sectors of the economy have given varying findings: For instance, Porter (1985) suggested that firms adopt pure strategies (cost leadership or differentiation or focus) since hybrid strategies were incompatible, but Kaliappen (2018), Slijper (2017) and Njuguna (2015) found out in their studies that hybrid strategies (combination of cost leadership and differentiation) had more influence on performance than pure strategies.

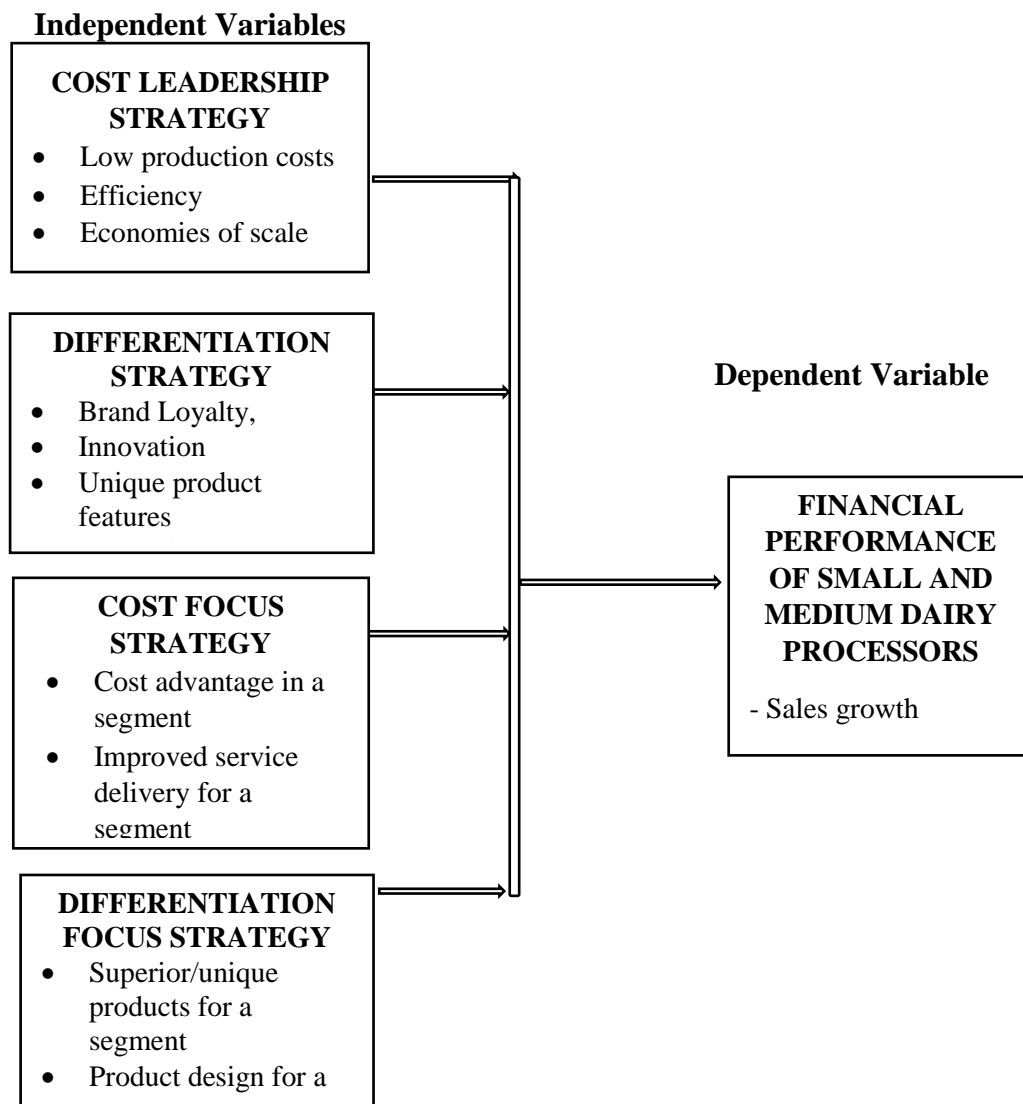
Thirdly, some studies have shown that the generic strategies do not have the same influence on performance in all industries. In relation to this, Kerama et al. (2019), established in their study that differentiation is more suited to e-business than other businesses, while Njuguna (2015) found out that cost leadership is not suited to multinationals. Due to these variations in findings, this study becomes necessary as it will provide additional information to the area of study.

## **2.6 Conceptual Framework**

According to Du-Bois (2018) a concept is an idea or a mental symbol, which is associated with a corresponding representation that denotes all of the objects in a given category or class of entities, interactions, phenomena, or relationships.

This study conceptualizes that there are four competitive strategies as proposed by Porter (1985) which influence the performance of small and medium dairy processors. The independent variables of this study are cost leadership strategy, differentiation strategy, cost focus strategy, and differentiation focus strategy. The dependent variable is the financial performance of the small and medium dairy processors in Nairobi County, which is measured by the level of growth of sales. The choice of the research variables is based on available literature (Panwar et al., 2016) which indicates that Porter's generic competitive strategies seem most popular since more research has been done on them than any other typology. Atikiya (2015) also asserts

that Porter's generic strategies are inherently related to performance. The relationship between the dependent and independent variables is summarized in Figure 2.2.



**Figure 2.2 Conceptual Framework**

### **2.6.1 Cost Leadership Strategy**

The current study establishes if the small and medium dairy processors have adopted the cost leadership strategy. Application of the strategy will mean that the firm is producing at the lowest cost possible, and so is able to offer its products to the market at a price lower than that of competitors. The assumption is that price sensitive customers will be attracted to such products, leading to increased volume of sales and hence improved performance of the firm. Improved efficiency in operations, coupled with economies of scale will result to reduced cost of production per unit, and reduced

wastage of resources. This translates to reduced prices, which lead to improved performance of the firm in terms of increased sales and profitability.

### **2.6.2 Differentiation Strategy**

The current study conceptualizes that small and medium dairy processors which adopt the differentiation strategy will achieve improved profitability and sales growth. The study intended to establish if the firms use superior product designs, innovative processes, excellent customer service, and if customers have brand loyalty. The firm which uses these strategies makes its products more appealing than those of competitors. This may result to improved performance. The results of the research will show if the firms are using the differentiation strategy and whether their performance has improved.

### **2.6.3 Cost Focus Strategy**

Small and medium dairy processors which achieve cost advantage in a selected segment may gain competitive advantage which might lead to improved performance. It will imply that the firm produces at lowest cost and sells at lowest price to the particular segment. Improved service delivery in a particular segment creates customer loyalty which in turn may improve the firm's profitability and sales.

### **2.6.4 Differentiation Focus Strategy**

The firm which adopts differentiation focus strategy is able to maintain close contact with its customers and hence effectively monitor their needs. This will enable the firm to design unique and superior products to its focus market segment, creating customer and brand loyalty, and possible improved performance. As conceptualized, the study will examine differentiation focus strategy with respect to the niche market segment in the small and medium dairy processors.

### **2.6.5 Performance of Firms**

Performance is the utilization of resources to achieve good results. According to Ceglinski (2017) the creative and distinctive strategy which the company chooses determines the ability of the firm to achieve performance which is above average. The Balanced Score Card (BSC) is one measure of performance which compliments financial measures with operational measures (Ceglinski, 2017). It measures the performance of a business from four perspectives: Financial perspective, customer perspective, intended operational measures perspective, and innovation and learning perspective (Ceglinski, 2017).

Atikiya (2015) gives three dimensions of measuring firm performance. Firstly, financial performance, which is measured in sales volume and profitability; secondly, business performance which combines financial performance and operational performance and measures market share, innovation, diversification, and value added processes; and thirdly, organizational effectiveness which measures management performance in terms of employee satisfaction, product quality, environmental responsibility, financial, and business performance.

In this study, the financial performance of the firms was measured in terms of sales volume. Growth in the volume of sales was taken as an indicator of improved performance. Additionally, in the current study, the performance of small and medium dairy processors in Nairobi County was conceptualized as being dependent on a firm's adoption of Porter (1985) competitive strategies of cost leadership, differentiation, cost focus, and differentiation focus.

### **2.7 Summary of the Chapter**

This chapter presented a review of literature on the effect of competitive strategies on the performance of firms. To begin with, the theoretical framework of the chapter discussed the theories that relate to competitive strategies. Secondly the chapter explored previous studies done on the topic and identified the study variables as seen in the conceptual framework. This was followed by an in-depth discussion on the study variables. An analysis of the knowledge gap was carried out, and lastly, a summary of the chapter presented. Chapter Three that follows discusses the methodology used in the research.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The chapter discusses the methodology used in the research. It presents the research design used, the location of the study, target population, sampling technique and sample size, research instruments, pilot study of the instruments, data collection procedure, data analysis, ethical considerations, and then makes a conclusion.

#### **3.2 Research Design**

A research design is a blue print for data collection, measurement, and analysis. Akhtar (2016) and Kapur (2018) opine that it is a plan, and structure of investigation which specifies the methods and procedures to be used to collect and analyze any needed information.

The current study used descriptive cross-sectional survey research design. This design was considered appropriate to this study since it has the capacity for wide application and broad coverage (Yin, 2017). Using this design allowed the collection of data which defines and describes the characteristics of the 18 small and medium dairy processors in Nairobi County. This mitigated the disadvantages of other methods such as case studies where generalizability is limited (Yin, 2017).

The study used the quantitative approach of data analysis which quantifies data and allows the use of statistics to analyze it (Kapur, 2018). The quantitative approach was considered suitable to the current study because it is the most popular research approach in the examination of the relationship between different variables, the measurement of objective theories (Akhtar, 2016), and allows for the analysis of data using standard statistical tools (Yin, 2017).

### **3.3 Location of the Study**

The study was carried out in Nairobi County. The particular area was chosen because more than 80% of the small and medium dairy processors are concentrated in Nairobi (KDB, 2019), so the findings can be generalized to the remaining 20% located outside Nairobi.

### **3.4 Target Population**

The target population comprised all the small and medium dairy processors in Nairobi County. These processors are 19 in number (KDB, 2019), but one firm was used for pilot study leaving 18 firms for the study and reporting. Five questionnaires were distributed to each of the 18 dairy processors.

Small and medium dairy processors were chosen for this study because available previous studies mainly focused on New KCC and Kinangop Dairy Ltd, which are large dairy processors. The selection of the enterprises for this study was also based on the fact that small and medium dairy processors are key drivers of Kenya's economy towards Vision 2030, the Government of Kenya Big Four Developmental Agendas, and SDG 2 on achieving food security and improved nutrition. This is coupled by the fact that the small and medium dairy processors are threatened by the competition pressure created by their large scale counterparts.

### **3.5 Sampling Technique**

According to Booth et al. (2016), a sample is a smaller group or sub-group obtained from the accessible population. Yin (2017) describes sampling process as the identification of entities of sample selection. Additionally, Akhtar (2016) views a sampling technique as a procedure of choosing a sub-group from a population to participate in a study. Since the total population of the small and medium dairy processors in Nairobi County is small, a census survey was carried out on the 18 dairy processors.

### **3.6 Research Instruments**

The study aimed to find out the competitive strategies adopted by small and medium dairy processors in Nairobi County, and assess the influence of the strategies on the

performance of the firms. The questionnaire was found to be the most appropriate instrument of data collection. The choice of the questionnaire tool is strengthened by the assertion of Kapur (2018) that the instrument measures existing relationships, and self-reported beliefs and behavior. Additionally, the questionnaire allows for quick and efficient collection of data and makes it possible for descriptive statistical analysis of data (Akhtar, 2016).

The choice of the questionnaire as a data collection tool is also founded on the fact that it is suitable for collecting a large amount of data from a large number of respondents within a short period of time. Additionally, the use of the questionnaire allows for confidentiality, and the results of the tool can easily be quantified and analyzed 'scientifically' and objectively.

The development of the questionnaire was based on previous studies. The constructs were adopted and modified from the study of Atikiya (2015). As Atikiya (2015) asserts, the use of a questionnaire which has been modified from previous studies contributes to the reliability and validity of the research instrument.

A Likert scale was designed for most of the constructs in the study. The choices in the scale were phrased as: to a very large extent, to a large extent, to a moderate extent, to a low extent, not at all. The scale provides ease in responding to questions, and enables ease in statistical analysis of data by the researcher.

### **3.7 Pre-testing/Pilot Study of the Instruments**

The pre-testing process helped to check on the clarity and suitability of the wording in the questionnaire, and to refine it through rephrasing and removal of ambiguous statements. It helped to determine if the questions asked are relevant and appropriate. Piloting also tested the reliability and validity of the research instrument (Kapur, 2018). In the current study the questionnaire was randomly administered to one of the dairy firms from the target population. Five respondents from the firm chosen therefore provided feedback for the pilot study.

After the pilot study, one question was deleted from the questionnaire since it was found to be ambiguous. Repetitions in the constructs of the research variables were identified and corrections made. During the pilot study the researcher realised that the

respondents did not want to reveal financial records on profits and quantity of sales. Consequently, the researcher had to revise the questionnaire to require the respondents to use perceptive performance as a measure of growth in sales. The above corrections were incorporated in the revised instrument. The pre-test data was not used together with other data collected during the study.

### **3.7.1 Validity of the Research Instrument**

Validity is the degree to which a construct measures what it is supposed to (Booth et al., 2016). To test the validity of the questionnaire at the point of designing it, it was adopted and modified from a previous study by Atikiya (2015), and consultations made with the college supervisors to ensure clarity and suitability of wording. Further, a pre-test was carried out on five managers from one processor chosen at random.

### **3.7.2 Reliability of Research Instrument**

Reliability establishes whether scores are stable over time when the instrument is administered a second time (Kapur, 2018). The reliability of the research variables was computed using Cronbach Alpha method which measures the internal consistency by establishing if certain items within a scale measure the same construct. The established Alpha value threshold is at 0.7, thus forming the study's benchmark (Yin, 2017). A reliability value of the scales exceeding the prescribed threshold of 0.7 implies that the research instrument is reliable (Booth et al., 2016). Cronbach Alpha was established for the different sections of the research instrument.

### **3.8 Data Collection Procedure**

Secondary data was collected through a review of the literature related to the study. To collect the primary data, the researcher used a semi-structured questionnaire.

Before the collection of data for this research study, the researcher obtained all the necessary permits. An introduction letter from the researcher was provided to each respondent. Appointments with the managers of the various firms were booked, their consent to participate in the study obtained, and at the agreed time the questionnaire was administered. The researcher delivered the questionnaires to the respondents and picked them at a later date. This gave respondents enough time for their responses.

The researcher also engaged a trained research assistant within the area of study to follow up, guide and remind the respondents. The completed questionnaires were then checked for completeness and accuracy.

### 3.9 Data Analysis

Data collected from this study was entered in to an SPSS Spreadsheet and cleaned to ensure completeness and accuracy. The data was analyzed using descriptive statistics derived from Statistical Package for Social Sciences (SPSS) version 21. The descriptive statistics used to determine the competitive strategies used by small and medium dairy processors included percentages, mean, and frequencies.

**Table 3.1: Operationalization of the Research Variables**

<b>Objectives</b>	<b>Variables</b>	<b>Type of Analysis</b>	<b>Measurement Level</b>
To find out the competitive strategies adopted by small and medium dairy processors in Nairobi County	Cost Leadership Differentiation Cost Focus Differentiation Focus	Descriptive Analysis	Nominal Ordinal
To assess the influence of cost leadership on the financial performance of small and medium dairy processors in Nairobi County	Cost Leadership	Descriptive Analysis	Ordinal Nominal
To evaluate the effect of differentiation on the financial performance of small and medium dairy processors in Nairobi County	Differentiation	Descriptive Analysis	Nominal Ordinal
To establish the influence of cost focus strategy on the financial performance of small and medium dairy processors in Nairobi County	Cost Focus	Descriptive Analysis	Nominal Ordinal
To determine the influence of differentiation focus on the financial performance of small and medium dairy processors in Nairobi County	Differentiation Focus	Descriptive Analysis	Nominal Ordinal

### 3.10 Ethical Considerations

Clearance to carry out this research was sought from Tangaza University College Research Ethics Committee (Appendix XII). This allowed for application for a research permit from the National Council for Science, Technology and Innovation (NACOSTI), and the Ministry of Education. The permit was obtained to authenticate

the study (Appendices XIII & IX). The letter of transmittal was given to the respondents. An explanation was given on what the study is about, and assurance given to the respondents that the research was purely for academic purposes.

A written consent was sought from the respondents before the exercise began. The study observed confidentiality on the information shared by the respondents - names were not written on the questionnaires - and the information gathered would only be used for the purposes of the study. The respondents were informed of their personal right of choice to participate in the study. This was ensured by informing the respondents of their voluntary participation and withdrawal from the study anytime they wished. The respondents were informed that they would suffer no harm by participating in the research. The findings would be shared with any respondent who wished to know the results of the research.

The data collected will be in the custody of the researcher for a period on five years after which the questionnaires will be shredded to ensure that their content does not get to unauthorized people.

### **3.11 Conclusion**

The chapter discussed the methodology used in the research. To begin with, it examined the research design, analyzed the target population and sampling, and discussed the research instrument in terms of piloting, validity, and reliability. This was followed by an exploration of data collection procedures and analysis techniques, and lastly, an examination of ethical considerations. The chapter ended with a conclusion.

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSION

#### 4.1 Introduction

This chapter gives the research findings of the research carried out to test the conceptual model of competitive strategies adopted by small and medium dairy processors in Nairobi County. Firstly, it analyses the response rate, reliability, and validity of the research instrument. Secondly, it presents the profiles of the firms under study. Thirdly, the chapter collates and presents the descriptive analyses of the study variables; and lastly, assesses if the independent variables have influence on the dependent variable.

#### 4.2 Response Rate

According to Akhtar (2016), a response rate denotes the extent to which all the sampled members of a study are included in the data collected for analysis. Out of the 90 questionnaires distributed for filling, 83 were returned. A response rate of 92% was achieved. Kapur (2018) argues that while a response rate of 50% is average, a 60 – 70% rate is considered adequate. Additionally, a response rate above 70% is considered excellent. Thus the 92% response rate of the current study is excellent. This is attributable to the fact that the researcher personally distributed the questionnaires and persistently did follow up to ensure all the questionnaires were filled and returned.

#### 4.3 Reliability Analysis

Atikiya, (2015) posits that a reliability of 0.7 is acceptable. Cronbach's Coefficient Alpha was used to measure the internal consistency of the constructs of the research instrument. Table 4.1 illustrates the findings.

**Table 4.1: Reliability of the Study Variables**

<b>Study Variables</b>	<b>No. of Items</b>	<b>Reliability Cronbach's Alpha</b>
Organization Profiles	5	0.69
Cost Leadership Strategy	15	0.85
Differentiation Strategy	15	0.95
Cost Focus Strategy	5	0.86
Differentiation Focus Strategy	7	0.72
Financial Performance of Firms	4	0.82

In the current study, the Alpha Coefficients ranged between 0.69 – 0.95 as shown in Table 4.1. The variables tested were therefore accepted as reliable for the study.

#### **4.4 Organization Profiles**

The respondents were asked to provide details of the firms in which they worked. The details included form of ownership of the firms, respondents' level of responsibility in the organizations, the number of years the firm had been in operation, and the number of full-time employees in the firm.

##### **4.4.1 Type of Ownership**

The form of business ownership was an aspect that the study sought to establish Table 4.2 shows the findings.

**Table 4.2: Type of Ownership of the Organizations**

<b>Type of Ownership of Organizations</b>	<b>Frequency</b>	<b>Percent</b>
Partnership	8	9.6
Registered Company	75	90.4
<b>Total</b>	<b>83</b>	<b>100.0</b>

Regarding the type of ownership, most of the firms that participated in the study were registered companies as represented by 75 (90.4%) respondents, while eight (9.6%), were partnerships. This shows that data was obtained from firms that legally existed, hence with well-established organization structures and records.



#### 4.4.2 Level of Responsibility of the Respondents

As a response to the requirement to state the participants' levels of responsibilities, the study found out that the various participants were of different levels of responsibilities. This is depicted in Table 4.3.

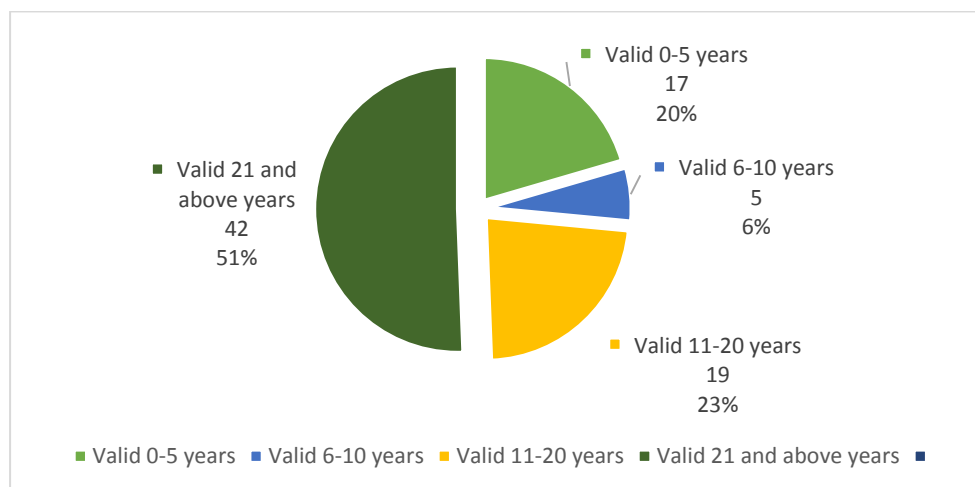
**Table 4.3: Level of Responsibility of Respondents**

Level of Responsibility of the Respondents	Frequency	Percent
Top Level Management	18	21.7
Head of Department	53	63.9
Head of Specific Firm Operations	12	14.4
<b>Total</b>	<b>83</b>	<b>100.0</b>

The majority of the respondents, represented by 53 (63.9%) out of the 83 participants, were heads of departments. Eighteen (21.7%) of the participants in the study were top level managers, while 12 (14.4%) were heading some specific firm operations as illustrated in table 4.3. It implies that data was collected from the targeted respondents, whose responsibilities as managers in the firms empowered them to give reliable responses to the questionnaires.

#### 4.4.3 Length of Operation of the Firms

In response to the question on the period of time the firms had been in operation, the respondents gave their responses as illustrated in Figure 4.1.



**Figure 4.1: Length of Firm Operation**

According to Figure 4.1, 42 (51%) out of the 83 participants said that their firms had been operating for over 21 years. Nineteen (23%) respondents reported that their firms had operated for 11-20 years, 20% for 0-5 years, and 5 (6%) for a period between 6-10 years. This means that the firms had adopted strategies that gave them a competitive edge in the industry. The competitiveness had enabled them to remain in the market, half of them for over 21 years.

#### 4.4.4 Number of Full-time Employees

The study also endeavored to establish the number of full-time staff that the small and medium dairy processors had employed. The responses of the participants are as indicated in Table 4.4.

**Table 4.4: Number of Full-time Employees**

	<b>Number of Full-time Employees</b>	<b>Frequency</b>	<b>Percent</b>
	1- 9 employees	5	6.0
	10-49 employees	23	27.7
	50- 249 employees	37	44.6
	250 and above	16	19.3
	Total	81	97.6
Missing	System	2	2.4
<b>Total</b>		<b>83</b>	<b>100.0</b>

Table 4.4 shows that most of the firms had between 50-249 employees. This is evidenced by 37 (44.6%) respondents out of the 83. They were followed by 23 (27.2%) firms who had 10-49 employees, and 16 (19.3%) with 250 employees and above. From the 83 participants, two of them did not indicate the number of employees of their firms – possibly due to lack of access to employee records. The data collected depicted small and medium dairy processors as greatly contributing to employment creation in the Kenyan economy.

#### 4.4.5 Number of Branches

Establishing the number of branches, the dairy firms had was another aspect that the current study sought. The findings are indicated in frequencies and percentages in Table 4.5.

**Table 4.5: Number of Branches**

<b>Number of Branches</b>	<b>Frequency</b>	<b>Percent</b>
0	23	27.7
1	18	21.7
3	1	1.2
Total	42	50.6
Missing System	41	49.4
<b>Total</b>	<b>83</b>	<b>100.0</b>

According to Table 4.5 most of the firms had only one plant operating, which means they did not have a branch as evidenced by 23 (27.7%) responses out of the 83. Eighteen respondents (21.7%) reported one branch, while one company (1.2%) had three branches. Participants who did not fill this question were 41 out of 83. The researcher later established that by not indicating the number of branches, some of the respondents meant that the particular firm had no branch. Having no branches and centralizing production and distribution activities means more control over firm functions, and this can improve the efficiency and effectiveness of the dairy firms.

#### **4.5 Competitive Strategies**

On a five-point Likert scale, the study attempted to assess the extent to which the firms had implemented the various competitive strategies of Cost Leadership, Differentiation, Cost Focus, and Differentiation Focus. The scale ranged from Not at all (1) on the lower level to Low Extent (2), Moderate Extent (3), Large Extent (4), and Very Large Extent (5) on the higher level. This was a response to the first objective of the current study, which sought to find out the competitive strategies the small and medium dairy processors had adopted.

##### **4.5.1 Cost Leadership Strategy**

The respondents were asked to indicate, by use of a likert scale of 1 – not at all, 2 – to a low extent, 3 – to a moderate extent, 4 – to a large extent, 5 – to a very large extent, the extent to which the various statements relating to Cost Leadership Strategy applied to their firm. Table 4.6 shows the frequency, percentage and mean of the responses as they range from the minimum (not at all) to the maximum (very large extent).

**Table 4.6: Cost Leadership Strategy**

Strategy	Not at all 1	Low Extent 2	Moderate Extent 3	Large Extent 4	Very Large Extent 5	Mean
Cost cutting and effective utilization of resources			10 (12%)	18 (21.7%)	54 (65.1%)	4.54
Firm has access to low cost raw materials	3 (3.6%)	24 (28.9%)	32 (38.6%)	20 (24.1%)	1 (1.2%)	2.90
Firm serves many industry segments	3 (3.6%)	28 (33.7%)	33 (39.8%)	10 (12%)	10 (12%)	3.02
Firm sells standardized products	2 (2.4%)	-	13 (15.7%)	14 (16.9%)	51 (61.4%)	4.43
Firm takes advantage of unskilled labor surpluses	19 (22.9%)		9 (10.8%)	41 (49.4%)	13 (15.7%)	3.35
Firm charges lower prices than its competitors	8 (9.6)	13 (15.7%)	39 (47%)	12 (14.5%)	10 (12%)	3.04
Firm heavily invests in sales promotion	11 (13.3%)	9 (10.8%)	52 (62.7%)	5 (6%)	2 (2.4%)	3.28
Firm retains employees by offering them benefits	11 (12.3%)	23 (27.7%)	25 (36.1%)	11 (13.3%)	9 (10.8%)	3.73
Firm gives its customers Discounts	13 (15.7%)	27 (32.5%)	36 (43.4%)	6 (7.2%)	-	3.57
Firm reduces labour costs by use of automation	16 (19.3%)	24 (28.6%)	26 (31.3%)		17 (20.5%)	3.47
Firm sources from suppliers who give discounts	18 (21.7%)	12 (14.5%)	36 (43.4%)		17 (20.5%)	3.37
Firm outsources functions to control costs	22 (26.5%)	6 (7.2%)	35 (42.2%)	12 (14.5%)	7 (8.4%)	3.29
Firm identifies under-performing areas and takes corrective measures	31 (37.3%)	16 (19.3%)	23 (27.7%)	12 (14.5%)	1 (1.2%)	3.77
JIT purchases of raw materials	17 (20.5%)	8 (9.6%)	30 (36.1%)	18 (21.7%)	9 (10.8%)	3.07
Firm strives to reduce administration costs	20 (24.1%)	9 (10.8%)	31 (37.3%)	19 (22.9%)	2 (2.4%)	3.32

Majority of the respondents, 54 (65.1%), agreed that the firms used cost cutting and efficient use of resources to a very large extent. A main feature of cost leadership which reduces production costs is the production and sale of standardized goods, which was agreed to by 51 (61.4%) of the respondents to a very large extent.

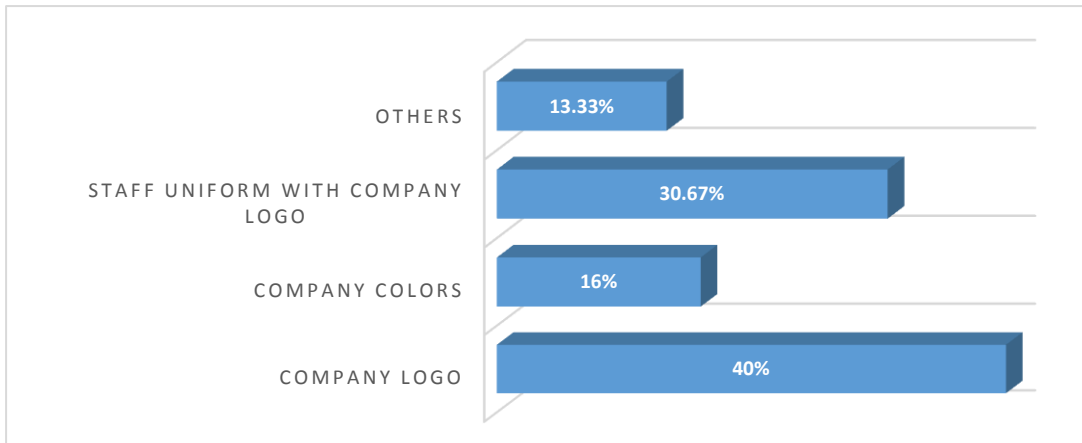
Cost leaders use sales promotion to reach a wide market. In relation to this, 52 (62.7%) respondents were of the opinion that they invested heavily in sales promotion. Firms that take advantage of unskilled labour surpluses benefit from reduced labour costs. The study revealed that 41 (49.4%) of the respondents had adopted the cost leadership strategy to a large extent.

A feature that may add to costs and disadvantage the firm that seeks cost leadership is failure to identify under-performing areas and carry out corrective measures. Noticeably, 31 (37.3%) of the respondents with a mean of 3.77 indicated that their firms failed in this aspect.

From the study, cost cutting and efficient use of resources, and sale of standardized products had the highest mean of 4.54 and 4.43 respectively, implying that most of the firms sought cost leadership through the two strategies. The average mean of the responses relating to Cost Leadership Strategy was 3.45. This implies that the opinion of most of the respondents was that their firms had adopted the Cost Leadership Strategy to a moderate extent.

#### **4.5.2 Differentiation Strategy**

The respondents were required to state how their firm created a unique image of itself. Uniqueness in an industry is a central characteristic of firms seeking differentiation, and can be achieved in different ways as shown in figure 4.2.



**Figure 4.2: Unique Image**

As evidenced in figure 4.2, 40% of the respondents were of the opinion that company logo was used to create a unique image of the firms. Firms which used staff uniform with company logo to create a unique image had a percentage of 30.67 respondents, while 16% used company colours. A minority of respondents, 13.33%, reported that some businesses used the brand to create uniqueness in firm image. This study established that the firms in the latter category had very strong and unique brands in the market.

Further, the respondents were asked to indicate on a Likert scale of not at all (1), to a low extent (2), to a moderate extent (3), to a large extent (4), and to a very large extent (5), the extent to which firms had adopted the listed statements that apply to Differentiation Strategy. Table 4.7 summarizes the findings in frequencies, percentages, and mean.

**Table 4.7: Differentiation Strategy**

<b>Attributes of Differentiation Strategy</b>	<b>Low Extent 2</b>	<b>Moderate Extent 3</b>	<b>Large Extent 4</b>	<b>Very Large Extent 5</b>	<b>Mean</b>
Superior Designs and Customer Service		11 (13.3%)	18 (21.7%)	54 (65.1%)	4.52
Production of Superior products		11 (13.3%)	19 (22.9%)	53 (63.9%)	4.51
Heavy investment in Research & Development	13 (15.7%)	12 (14.5%)	11 (13.3%)	46 (55.4%)	4.1
Safeguards patents and intellectual property		16 (19.3%)	12 (14.5%)	55 (66.3%)	4.47
Offers high quality services and products			22 (26.5%)	61 (73.5%)	4.73
Unique, talented, experienced personnel	1 (1.2%)	9 (10.8%)	13 (15.7%)	60 (72.3%)	4.59
Firm purchases quality inputs			16 (19.3%)	67 (80.7%)	4.81
Rigorous quality control to become quality leader		1 (1.2%)	24 (28.9%)	58 (69.9%)	4.69
Constant new product development/improvement		12 (14.5%)	24 (28.9%)	47 (56.6%)	4.42
Great importance laid on product features (design)		20 (24.1%)	15 (18.1%)	47 (56.6%)	4.33
Maintains and protects brand image	1 (1.2%)	10 (12%)	18 (21.7%)	53 (63.9%)	4.5
Firm consciously makes products different from those of competitors	2 (2.4%)	16 (14.3%)	21 (25.4%)	43 (51.8%)	4.28
More innovative products than those of competitors		14 (16.9%)	27 (32.5%)	41 (49.4%)	4.33
Products have strong brand identification	1 (1.2%)	21 (25.3%)	11 (13.3%)	49 (59.4%)	4.32
Strives to build strong reputation in the industry		7 (8.4%)	21 (25.3%)	54 (65.1%)	4.57

According to Table 4.7, all the firms had adopted the differentiation strategies to a very large extent. For most of the firms, the quality of the purchased inputs was of prime importance as evidenced by 67 (80.7%) respondents with a mean of 4.81. High quality inputs produce high quality outputs which are a key differentiation factor. Sixty-one respondents (73.5%) reported that they offered high quality services and products to their customers, which is possible with committed staff; so 60 (72.3%) respondents ascertained that the firms had unique, talented and experienced personnel.

Fifty-eight respondents, with a mean of 4.69, confirmed that rigorous quality control with the aim of becoming a quality leader in the market was being carried out. That the firms strove to build a strong reputation within the industry was indicated by 54 (65.1%), while a similar number of respondents indicated that the firms stressed superior product design and superior customer service.

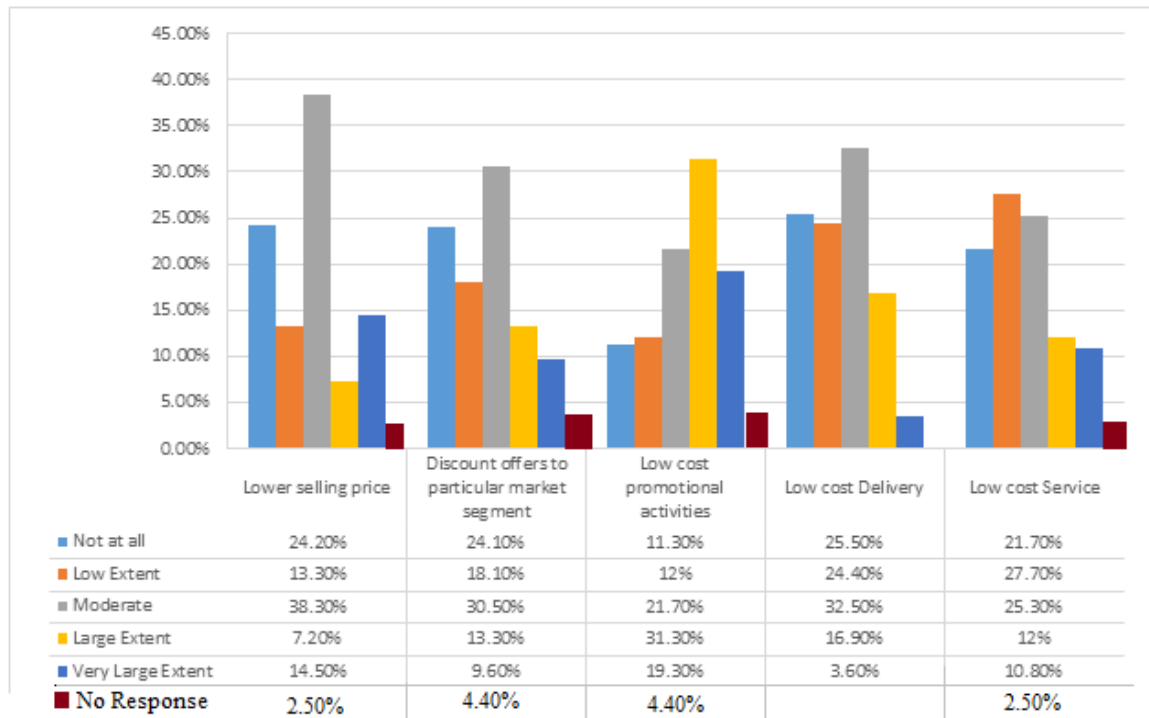
Emphasis on the production of superior products was of importance to firms as indicated by 53 (63.9%) respondents, while a similar number with a mean of 4.51 reported that the firms made efforts to maintain and protect their brand image - a factor which is essential for remaining ahead of competitors. Forty-nine (59.4%) of the respondents ascertained that their firms had products with a strong brand identification, while 47 (56.6%) confirmed that the firms constantly carried out new product development and improvement to meet the changing tastes and preferences of customers. A similar number of 47 (56.6%) also indicated that great importance was laid on product features like functionality, durability, colour, size, shape, taste, and packaging.

The firms that heavily invested in research and development had a mean of 4.1, while 43 (51.8%) made conscious efforts to make their products different from those of competitors, as 41 (49.4%) strove to introduce more innovative products than competitors. The average mean of the Differentiation Strategy was 4.45, implying that from a likert scale of 1-5 the most agreed to opinion was that the firms used the strategy to a large extent.



### 4.5.3 Cost Focus Strategy

The participants in the study were required to give their opinion on Cost Focus Strategy. Figure 4.3 shows the percentages of their responses concerning the given statements which relate to Cost Focus Strategy.



**Figure 4.3: Cost Focus Strategy**

On the aspect of the selling price, 38.30% of the respondents indicated that they offered lower selling prices for a particular market segment to a moderate extent, while 24.2% did not lower selling prices to particular market segment at all.

Concerning discount offers, 30.5% of the respondents indicated that they offered discounts to a particular market segment to a moderate extent, as 24.10% indicated that no discounts were given to particular markets at all. Findings from the study on promotional activities indicated that 31.3% of the firms had adopted low cost promotional activities that targeted a particular market segment to a moderate extent, while a similar number adopted the strategy to large extent. Some firms did not use the strategy at all as depicted by 11.3%.

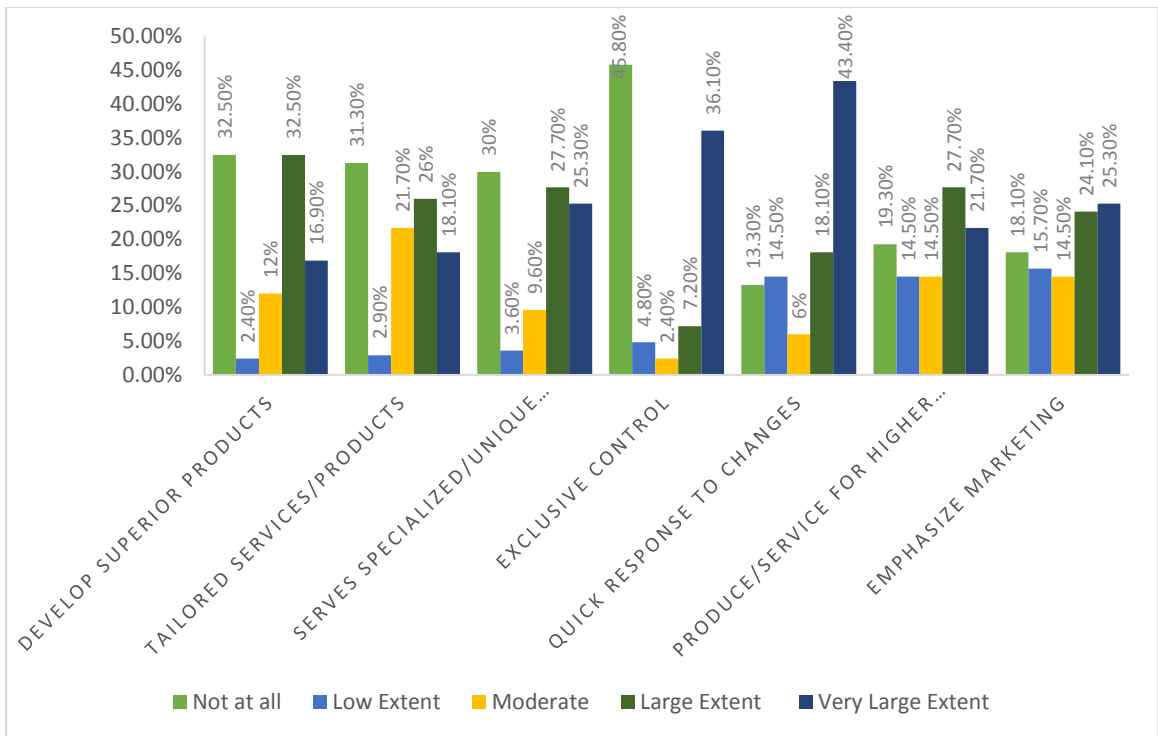
The respondents were also required to state the extent to which their firms arranged for low cost delivery of products to a particular market segment. Out of the 83

respondents, 32.5% confirmed that their firms targeted a particular market segment with a lowered delivery cost to a medium extent, and 24.4% % to a low extent. Conversely, a percentage of 25.5 of the firms did not adopt the strategy at all. In response to efficiency in services, 27.70% of the respondents confirmed that to a low extent, their firms offered efficient and low cost service to a narrow strategic market, while 25.30% offered the services to a moderate extent. Additionally, 21.7% of the respondents stated that their efficient and low cost services did not target a narrow and strategic market at all.

The average mean of the variables in table 4.9 is  $M= 2.78$ . This shows that the preferred opinion of the participants on the variables was not at all from the Likert scale of 1-5, implying that the firms in the study did not use the strategy much. Since Cost Focus as a strategy means producing at low costs and selling at low prices to a targeted market, it can result in additional costs when the firm is small in size as is the case with the dairy firms in the current study. This may explain why the firms seem not to have adopted the strategy much.

#### **4.5.4 Differentiation Focus Strategy**

The participants of the study were asked to indicate on a Likert scale of not at all (1), to a low extent (2), to a moderate extent (3), to a large extent (4), and to a very large extent (5), the extent to which their firm had adopted Differentiation Focus strategy. Figure 4.4 shows the responses to the different types of measures of Differentiation Focus Strategy.



**Figure 4.4: Differentiation Focus Strategy**

The firms that developed superior products for a niche market segment to a large extent were presented as 32.5% and 16.9% to a very large extent, totaling to 49.4%. Noticeably from Figure 4.4, 32.50% did not adopt this strategy at all. Firms can focus their differentiation to a niche market through tailored products. In the current study, a total of 71.1% respondents indicated that firms had adopted this strategy, but 31.3% had not tailored their products for a niche market at all. Nevertheless, the findings show the majority of the dairy firms in the study as preferring to serve a niche market.

The findings also indicate that majority of the firms did not have exclusive control over the production of the milk they processed, as represented by 45.8% of the respondents. Failure to control the milk input for processing could lead to production of poor quality output. However, 36.1% exclusively controlled the milk input to a very large extent, and this could translate into better quality outputs.

On the type of needs that the firms served, 53% of the participants responded that the firms served the specialized and unique needs of their customers to a large extent. However, a large percentage of 30 did not use the strategy at all, possibly due to the

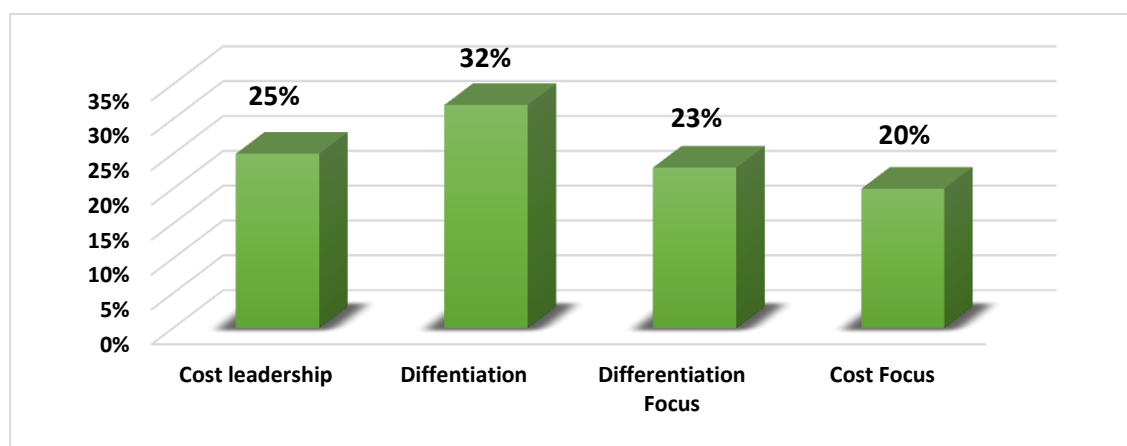
fact that a small firm might incur added expenses in focusing on serving the specialized needs of a segment of customers.

Quick and timely response to the ever changing customer needs is an important aspect of focused differentiation. As can be deduced from Figure 4.4, 43.4% of the respondents agreed that the firms gave a fast response to demand changes in their customers. This is an aspect that ensures customer satisfaction and may create loyalty to the firm. However, some respondents represented by 43.4% confirmed that the firms did not apply the particular strategy.

In response to the type of segment the firms served, a total of 49.4% of the respondents reported that goods were produced for higher price segments, indicating a certain level of focused differentiation. The average mean of the responses on Differentiation Focus Strategy was  $M=3.25$ , which implies that the dairy firms had adopted the strategy to a moderate extent.

#### **4.6 Research Objective 1: To find out the competitive strategies adopted by small and medium dairy processors in Nairobi County**

Figure 4.5 summarizes in percentages, the competitive strategies which the dairy firms had adopted.



**Figure 4.5: Strategies adopted by the Firms**

It is evidenced in figure 4.5 that Differentiation (32%) was the most preferred strategy since it had the highest percentage, with an average mean of 4.45. From the Likert scale of 1 (not at all), 2 (to a low extent), 3 (to a moderate extent), 4 (to a large extent)

5 (to a very large extent), it can be deduced that the enterprises had implemented the differentiation strategy to a large extent. Cost Leadership Strategy with a mean of 3.45 had a 25% preference, while Differentiation Focus at 23% had a mean of 3.25. The firms had adopted both Differentiation Focus and Cost Leadership strategies to a moderate extent, while Cost Focus (20%) with a mean of 2.78 was adopted to a low extent.

The findings of this study concur with the findings of studies by Njuguna, (2015); and Atikiya, (2015), who in their studies on competitive strategies established that the firms had adopted the Differentiation strategy more than Cost Leadership, Cost Focus and Differentiation Focus strategies. On the contrary, Mutunga, et al.(2014) in their study on competitive strategies and the beverage industry confirmed that majority of the firms embraced the Hybrid strategies, but that Cost Leadership was the most preferred strategy. This implies that the appropriateness of competitive strategies to a firm may depend on the particular industry and the size of the firm, so generalization across industries may not be valid.

In the present day's dairy industry which is characterized by stiff competition and domination from the four large dairy firms that control a larger market share compared to the 31% that small and medium dairy processors command, the differentiation strategy may be the solution for the latter's continued survival in the industry.

Concentration on unique products and services can give the firms a competitive edge in the industry. Cost Leadership as a strategy may not be very appealing to small and medium firms because their size may not allow absorption of costs to an extent that the firm sells products at prices lower than competitors and still achieve the same level of profits.

The Focus strategy may suit smaller firms who do not have the resources to offer products in the wide market which is served by the large scale organizations. However, the small and medium dairy enterprises in the current study seem not to have adopted much of the Focus strategy. One challenge of the strategy is that the firms need to have a steady customer base in order to make sustainable profits from the narrow market segment. Secondly the strategy also requires a sizeable segment of

customers in terms of numbers for it to generate sustainable profits. Generally, a firm will adopt the strategy that mostly suits its size, type of business, and industry.

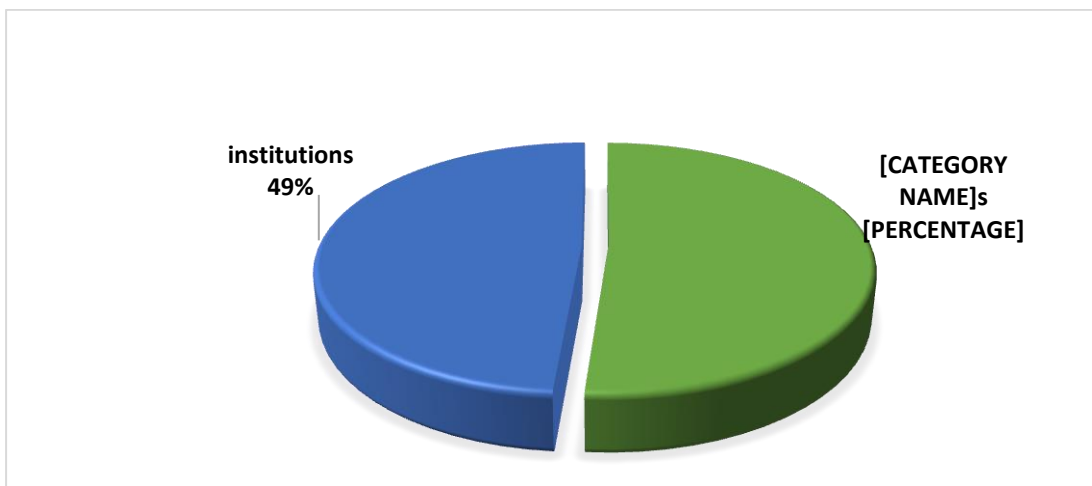
#### 4.7 Financial Performance of the Dairy Firms

In the current study, the financial performance of the firms was measured using sales growth. The study preferred to use perceptual performance as opposed to objective indicators such as profit because, as Atikiya (2015) asserts, and as established by the researcher during the pilot study, most respondents considered the profit measure of performance as confidential, and were not willing to reveal such data. However, of advantage is the fact that findings from the perceptual performance are valid since, according to Atikiya (2015), past studies had established that perceptual measures had a tendency to have a high correlation with objective indicators.

Before assessing the influence of competitive strategies on financial performance of the firms which was measured in terms of sales growth, the study first analyzed some aspects of firms that relate to sales.

##### 4.7.1 Types of Customers

The participants in the study were asked to state the main types of customers that the firms had. The responses as are seen in Figure 4.6.



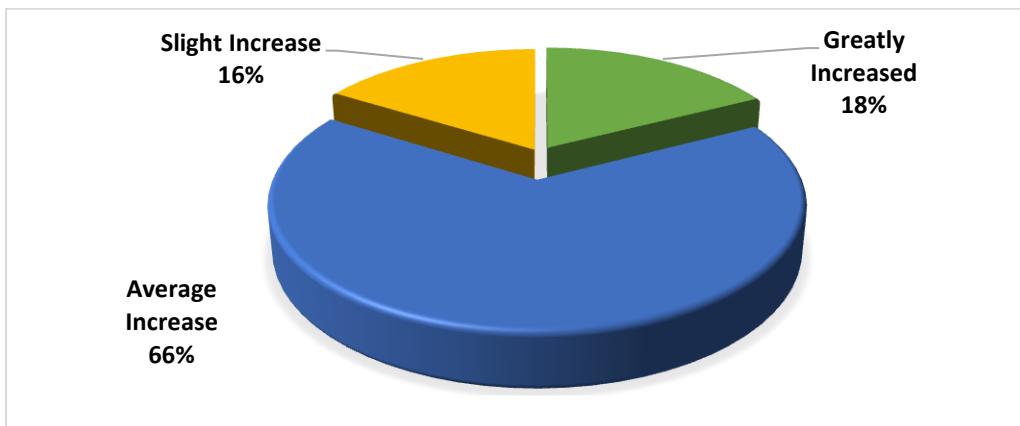
**Figure 4.6: Types of Customers**

From Figure 4.6, most firms had individuals as their main customers as accounted for by 51%, while 49% dealt with institutions as their main customers. However, the

percentage gap between the two types of customers is narrow. Since the firms in the study are small and medium in size, they might find it more appropriate to deal with individuals as customers than institutions, because individual customers provide ready cash which the firms need for working capital, and immediate feedback on the dairy products they buy. This quickens the firms' response to changes in customer preferences and tastes.

#### 4.7.2 Influence of Competitive Strategies on Number of Customers of the Firms

In reference to the influence of competitive strategies on the number of customers the firms had, the participants of the study indicated their opinion on a scale of greatly increased, average increase, slight increase, and no increase at all. Figure 4.7 showed that the firms had adopted the competitive strategies, and that they had influenced the performance of the firms.



**Figure 4.7: Influence of Competitive Strategies on the Number of Firms' Customers**

Sixty-six percent of the participants were of the opinion that the strategies increased the firms' customers to an average extent, while 18% responded that the customers had greatly increased. A minimal 16% of the total respondents indicated that the strategies had increased customers to a slight extent. This increase implies that the competitive strategies the firms had adopted were effective, and were consequently contributing to growth in sales.

### 4.7.3 Influence of Competitive Strategies on Amount of Milk Processed per Day

The study sought to establish if the competitive strategies the firms had adopted had any influence on the quantity of milk processed per day. The participants were asked to give their responses on a Likert scale ranging from greatly increased (highest), to average increase, to slight increase to no increase at all (the lowest). The responses are shown in Table 4.8.

**Table 4.8: Number of litres of Milk Processed per day**

<b>Litres of Milk Processed per Day</b>		<b>Frequency</b>	<b>Percent</b>
	Greatly Increased	25	30.1
	Average Increase	41	49.4
	Slight Increase	16	19.3
	Total	82	98.8
Missing	System	1	1.2
<b>Total</b>		<b>83</b>	<b>100.0</b>

The companies agreed that using competitive strategies had influence on the quantity of milk processed per day. Forty-one respondents (49.4%) out of the 83 were of the opinion that there was average increase on the milk processed per day, 25 (30.1%) confirmed that it had greatly increased, while 16 (19.3%) had witnessed slight increase on the performance. Increase in the quantity of milk processed per day means that there was an increase in customers for processed milk, which consequently resulted in an increase in the quantity of sales.

### 4.7.4 Influence of Competitive Strategies on Sales Growth

The participants in the study were asked to show on a Likert scale of 1-5 the extent to which the competitive strategies their firms were using had influenced the growth of sales. In the Likert scale, 5 represented growth to a very large extent, 4 to a large extent, 3 to a moderate extent, 2 to a slight extent, and 1 not at all. Table 4.9 gives a summary in frequencies and percentages, of the influence of competitive strategies on the quantity of sales per year in the firms.



**Table 4.9: Level of Growth on Quantity of Sales per Year**

<b>Level of Growth on Quantity of Sales</b>	<b>Frequency</b>	<b>Percent</b>
Slight Extent	3	3.6
Moderate Extent	66	79.5
Large Extent	13	15.7
Total	82	98.8
Missing System	1	1.2
<b>Total</b>	<b>83</b>	<b>100.0</b>

From Table 4.9, sixty-six (79.5%) of the 83 participants agreed that there was an increase in the sales to a moderate extent, while 13 (15.7%) of them reported a large extent increase, as 3 (3.6%) gave the opinion that the sales had an increase to a low extent. It can therefore be deduced that the strategies the firms had adopted had increased the sales of the firms.

The findings are in harmony with findings of studies done by Chege et al. (2015), and Chege et al. (2016) which established that the adoption of Porter's generic strategies influenced the performance of firms. The findings also agree with Porter (1985) assertion that the performance of firms improves with the adoption of the generic strategies. Improvement in performance can be attributed to the fact that the four generic strategies offer opportunities for a firm to improve in all aspects.

#### **4.8 Research Objective 2: To assess the influence of cost leadership on financial performance of small and medium dairy processors in Nairobi County**

The respondents of the current study were required to indicate on a Likert scale of 1-5 (1 – Not at all, 2 – to a slight extent, 3 – to a moderate extent, 4 – to a large extent, 5 – to a very large extent) the extent to which Cost Leadership Strategy improved the growth of sales of the small and medium dairy processors in Nairobi County. Table 4.10 presents the responses from the participants in frequencies and percentages.

**Table 4.10: Influence of Cost Leadership Strategy on Performance (Sales Growth)**

<b>Extent of Improvement on Performance</b>	<b>Frequency</b>	<b>Percent</b>
To a Very Large Extent	7	8.4
To a Large Extent	20	24.1
To a Moderate Extent	56	67.5
<b>Total</b>	<b>83</b>	<b>100.0</b>

Analysis of the responses indicated that 67.5% of the participants believed that the strategy had influenced the performance (sales growth) of the firms to a moderate extent, while 24.1% said the sales improved to a large extent as depicted in Table 4.10. It can therefore be concluded that Cost Leadership strategy influenced the growth of sales. These findings are in agreement with findings by Somba (2016); and Chege et al. (2017), which found out that Cost Leadership had a positive influence on the performance of firms.

The fact that Cost Leadership strategy positively influenced sales growth in the current study meant that the dairy firms had successfully managed to cut down on costs of the operations of the firms. However, the reason for moderate growth in sales of the firms in the current study could be that the firms had not paid a lot of attention to the identification of under-performing areas that needed corrective measures in order to cut down on costs.

**4.9 Research Objective 3: To evaluate the effect of differentiation strategy on the performance of small and medium dairy processors in Nairobi County**

In order to achieve this objective, the participants in the study were required to show on a Likert scale the extent to which they agreed with the given statements. In the Likert scale, 1 represented not at all, 2 represented to a slight extent, 3 represented to a moderate extent, 4 represented to a large extent, while 5 represented to a very large extent. Table 4.11 presents the findings.

**Table 4.11: Influence of Differentiation Strategy on Performance (Sales Growth)**

<b>Extent of Improvement on Performance</b>	<b>Frequency</b>	<b>Percent</b>
To a Very Large Extent	52	62.7
To a Large Extent	29	34.9
To a Moderate Extent	2	2.4
<b>Total</b>	<b>83</b>	<b>100.0</b>

Sixty-two percent of the respondents ascertained that the use of the strategy improved performance to a very large extent, 34.9% to a large extent, while 2.4% said there was moderate improvement. From the findings, it can be concluded that the adoption of the Differentiation Strategy by the small and medium dairy processors contributed to sales growth of the firms. These findings are in agreement with the results of research by Chege et al. (2015); Atikiya (2015); Tuva (2015); and Mita et al. (2017), which confirmed that differentiation strategy improved the performance of firms.

In the current study, the level to which differentiation impacted performance is to a very large extent. This means that since the firms are either small or medium in size, they had chosen to differentiate themselves from their domineering large scale counterparts by embracing all the aspects of the differentiation strategy. The differentiating aspect of stringent quality controls by the dairy firms in the study was a major contributing factor to the successful implementation of the differentiation strategy.

#### **4.10 Research Objective 4: To establish the influence of cost focus on the performance of small and medium dairy processors in Nairobi County**

On a Likert scale of 1-5, (1 representing Not at all, 2 representing to a slight extent, 3 representing to a moderate extent, 4 representing to a large extent, and 5 representing to a very large extent), the respondents were asked to indicate the influence of cost focus on the performance of their dairy firms. The findings are illustrated in Table 4.12 in frequencies and percentages.

**Table 4.12: Influence of Cost Focus Strategy on Performance**

<b>Extent of Improvement on Performance</b>	<b>Frequency</b>	<b>Percent</b>
To a Large Extent	19	22.9
To a Moderate Extent	26	31.3
To a Low Extent	18	21.7
Not at all	20	24.1
<b>Total</b>	<b>83</b>	<b>100.0</b>

Thirty-one point three percent of the participants in the study reported that the adoption of the Cost Focus strategy improved firm performance to a moderate extent, while 24.1% reported that the strategy did not improve firm performance at all. These findings show that most of the firms did not implement the strategies much as depicted by a moderate response by the majority who were a low 31.3%.

Conversely, studies by Chege et al. (2017) established that compared to Cost Leadership and Differentiation strategies, the Focus strategy had the most significant influence on performance. The differing findings could be due to the fact that the firms in the current study, being small in size, would find no benefit in focused cost leadership since the strategy requires a large market segment to be effectively adopted, and to generate sustainable profits for the particular firm.

**4.11 Research Objective 5: To determine the effect of differentiation focus on the performance of small and medium dairy processors in Nairobi County.**

As a response to the question on whether Differentiation Focus strategy had any influence on the performance of the small and medium dairy processors, the respondents to the study indicated their opinion on a Likert scale where 5 represented to a very large extent, 4 to a large extent, 3 to a moderate extent, 2 to a slight extent, and 1 not at all. The responses are illustrated in Table 4.13 in the form of frequencies and percentages.

**Table 4.13: Influence of Differentiation Focus Strategy on Performance**

<b>Extent of Performance Improvement</b>	<b>Frequency</b>	<b>Percent</b>
To a Very Large Extent	11	13.3
To a Large Extent	32	38.6
To a Moderate Extent	37	44.5
To a Low Extent	3	3.6
<b>Total</b>	<b>83</b>	<b>100.0</b>

Table 4.13 shows that a total of 51.9% of the participants in the study reported that Differentiation Focus improved firm performance to a large extent, while 37.3% confirmed that the strategy improved performance only to a moderate extent. It can be deduced that differentiation focus strategy improved the performance of the firms in the study.

The findings of the study are in agreement with findings from studies by Chege et al. (2017) which indicated that the Differentiation Focus strategy positively improved the performance of enterprises. In the current study, the small and medium dairy firms adopted the strategy to a moderate and large extent. The reason for this may be that a firm may need a large size of a market segment for it to make significant profits, and this may have made the small and medium dairy processors reluctant to embrace the strategy fully.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter gives a summary of the study findings, conclusions, recommendations, and suggestions of areas for further research. The SPSS software was used to carry out a descriptive and statistical analysis of the data collected. The tables, frequencies, and charts drawn from the analysis provided data which was used to describe findings and draw conclusions.

The study sought to assess the influence of competitive strategies on financial performance of small and medium dairy processors in Nairobi County. More specifically, it sought to: find out the competitive strategies adopted by small and medium dairy processors in Nairobi County, assess the influence of cost leadership on the performance of small and medium dairy processors in Nairobi County, evaluate the effect of differentiation on the performance of small and medium dairy processors in Nairobi County, establish the influence of cost focus on the performance of small and medium dairy processors in Nairobi County, and determine the effect of differentiation focus on the performance of small and medium dairy processors in Nairobi County.

#### **5.2 Summary of Major Findings**

The small and medium dairy processors in Kenya control 31% of the total market share, and are key drivers in the achievement of Kenya Vision 2030, the global SDGs, and Kenya's 'Big Four Developmental' Agendas. The overall dairy industry is characterized by stiff competition which is marked by the collapse of some firms and several acquisitions of smaller firms by the larger dairy firms. In spite of the benefits of liberalization, Kenya's milk production still falls short of the 2022 projected demand of 1.2 billion litres. With the projected increase of urban population to 43% by 2022 and the growth of the country into a middle economy, the demand for quality, safe, high value processed milk and milk products will also heighten. To rise up to these challenges, the small and medium dairy processors will need to carefully craft the relevant competitive strategies that will ensure their survival in the highly

competitive industry. The following section presents the findings based on the five objectives of the study.

### **5.2.1 Objective One: To find out the competitive strategies adopted by small and medium dairy processors in Nairobi County**

Majority of the firms in the study had adopted the Differentiation Competitive Strategy to a very large extent as represented by 32%. The firms reported commitment to being quality leaders by putting in place stringent quality control measures in all firm operations. Creation and upholding of a strong brand image, the safeguarding of the brand image, patents and intellectual property were important features for the differentiated firms. However, the firms were found to lag behind in research and development.

The second preferred strategy was Cost Leadership with 25% of the firms having adopted it. The leading characteristics were emphasis on cost cutting and effective utilization of resources, and heavy investment on sales promotion. However, the findings indicated that most of the organizations did not constantly identify under-performing areas in order to carry out corrective measures for cost control.

The third strategy adopted by 23% of the firms was Differentiation Focus. The key findings were that, majority of the firms made quick responses to changes in consumer demands, and had exclusive control over the milk produced for processing. At the same time, a large number of the firms did not exercise strict control over the milk produced for processing. This is a limitation that could compromise the quality of the output into the market. Cost Focus strategy was the fourth preferred strategy with a 20% adoption by the firms. This means that the particular firms had a selected market segment into which they offered products and services at reduced prices.

### **5.2.2 Objective Two: To assess the influence of cost leadership on the performance of small and medium dairy processors in Nairobi County**

Findings from the study showed that 67% of the participants were in agreement that Cost Leadership strategy influenced the performance of the small and medium dairy processors to a moderate extent. This means that the firms will need to take

advantage of outsourcing, and automation, and carry out corrective measures in underperforming areas.

### **5.2.3 Objective Three: To evaluate the effect of differentiation strategy on the performance of small and medium dairy processors in Nairobi County**

Descriptive analysis showed that Differentiation strategy boosted the performance of the firms to a very large extent as ascertained by 62.7% of the respondents. The firms adopted stringent quality control in many aspects of the firms' operations, and employed unique techniques and talented personnel.

### **5.2.4 Objective Four: To establish the influence of cost focus on the performance of small and medium dairy processors in Nairobi County**

Thirty-one point three percent of the respondents in the study agreed that cost focus strategy influenced the performance of the firms to a moderate extent. Most firms had not successfully achieved cost advantage in the narrow market segment.

### **5.2.5 Objective 5: To determine the effect of differentiation focus on the performance of small and medium dairy processors in Nairobi County**

Findings from 51.9% of the respondents confirmed that differentiation focus strategy had an influence on the performance of the firms to a large extent. The key aspects that contributed to this are that the firms had paid attention to giving quick response to changes in consumer needs, and had also achieved strict control over the milk input.

## **5.3 Conclusion**

The findings of the study show that the small and medium dairy processors in Nairobi County had implemented Differentiation, Cost Leadership, Differentiation Focus, and Cost Focus strategies respectively. The strategies positively influenced the performance of the dairy processors to a moderate and large extent, except for differentiation strategy which influenced performance to a very large extent. As a contribution to knowledge, this study concludes that firms should study carefully the strategies that their counterparts in the industry have adopted, and then select the



strategies that suit the size of the firm in question. This is because some past empirical studies have given findings which differ with those of the current study.

#### **5.4 Recommendations**

Based on the findings of the current study, it is recommended that:

- a) Firms invest more in research and development in order to find techniques of differentiating themselves in the competitive industry.
- b) Firms become more stringent in identifying under-performing areas and carrying out corrective measures in order to cut down on costs.
- c) firms take exclusive control over the production of the milk used for processing to improve the quality of the processed milk and related products
- d) Firms develop more mechanisms to facilitate quicker response to changes in the needs of consumers.

#### **5.5 Suggestions for Further Research**

- a) The current study was descriptive and cross-sectional. A longitudinal and inferential research could be done in the same field with a larger study population that covers a wider geographical area other than the Nairobi County covered in the current study.
- b) In the current study, performance was measured by use of perceptual means which sometimes may be partial. The same study can be replicated using more objective measures of performance like profits/revenues be used.
- c) It is also suggested that further study be carried out only on the medium dairy firms which have a history of high profitability, for purposes of providing new entrants into the field with useful information on the most appropriate competitive strategies to adopt as a market penetration strategy.

## **CHAPTER SIX**

### **EXECUTIVE SUMMARY OF THE BUSINESS PLAN**

#### **6.1 Introduction**

LoretoFarm is a social enterprise which is owned by the Loreto Sisters of the Eastern Africa Province. The farm has been in existence for five years during which it was used for subsistence farming. The need to realize more benefits from the farm began in 2016.

#### **6.2 Problem-Opportunity**

Projections indicate that urban population will increase to 43% and that there will be a resultant increase in appreciation and demand for quality and high-value processed milk and milk products by 2022 (Kibogy, 2018). The increase in urban populations, along with the growth of Kenya into a middle economy, has created a population of middle income people who have higher disposable incomes. This population is knowledgeable and conscious of health eating, and is in favour of naturally processed functional foods which have specific health and nutritional value (Kibogy, 2018; Feed the Future, 2018). Some of the dairy products that have gained popularity as a consequence of modernization are cultured milk, cholesterol free products, and probiotic yoghurts.

The growth of a middle class population has also seen an increase in lifestyle diseases. The Kenya Ministry of Health (2015) reported that more than 50% of the patients who are admitted in hospitals and above 55% of the deaths which occur in hospitals are associated with lifestyle diseases. Every year, about 28,500 Kenyans are diagnosed with cancer (National Council for Population and Development, 2019). The rise in these lifestyle diseases is attributed to rapid urbanization, economic transition, and diets which are unhealthy (National Council For Population and Development, 2019).

The existing urban environments which are characterized by populations that are seeking wellness has provided a business opportunity for LoretoFarm which is located in the outskirts of Karen town in the Nairobi County. The farm will produce and offer

for sale organic indigenous vegetables and probiotic yoghurt, both of which have health benefits, and so will satisfy the needs of the middle income population for healthy foods that will put a check on the increasing lifestyle diseases.

Another problem which presents an opportunity to LoretoFarm is based on the projections made in The National Dairy Development Policy. The Policy envisages Kenya as a net exporter of milk by 2030 (Feed the Future, 2018). Kibogy (2018) also argues that the Kenya Government expects the dairy industry to play a major role in the achievement of Vision 2030, the SDGs, and the Four Developmental Goals. The challenge in this case is that projected domestic production is unable to meet 2022 projected demand by 1.28 billion litres, and current exports are low (Kibogy, 2018). LoretoFarm will take up the opportunity and begin processing milk products that promote the wellness of the health conscious populations, and also contribute to increasing the quantity of processed milk in order to curb the projected shortage and increase exports.

Kenya also suffers a lot of post-harvest milk losses. In 2017 the losses amounted to sh.12.4 billion (Kenya National Bureau of Statistics, 2018). At the same time, small scale farmers earn low incomes from milk sales to cooperative societies, yet many do not have the capacity to add value to the milk for higher incomes. LoretoFarm sees this as an added opportunity to reduce milk losses suffered by dairy farmers, and contribute to their incomes by bulking their milk at better prices and processing it.

### **6.3 Business Concept and Products**

LoretoFarm will produce and offer for sale high quality and natural indigenous vegetables and probiotic yoghurt with health benefits to health conscious people for overall wellness. Specifically, probiotic yoghurt contains live bacteria which offer the following health benefits among others: supports digestion, lowers risk of type 2 diabetes, lowers the risk of colorectal cancer, increases bone density and may help prevent osteoporosis, supports weight loss and increases fat loss, boosts immune system.

#### **6.4 Competitive Advantage**

The dairy industry in Kenya is dominated by some four large scale processors who offer stiff competition to the small and medium dairy processors. They control large market shares, and are well established. Production in the industry is capital intensive and there is use of modern technology. The large dairies do not produce probiotic yoghurt. They mainly produce a variety of dairy products for the wider market, so they will not be direct competitors of LoretoFarm. The main competitors in the production of probiotic yoghurt are Bio Foods Ltd. and Choice Health Network which produces Tuti Probiotic yoghurt. LoretoFarm will utilize findings from research recently done by the director, and adopt the differentiation competitive strategy in order to gain competitive advantage over the two competitors. The farm will also use stringent measures to control costs so that it can sell its products at prices lower than those of its competitors in an effort to gain for itself a sizeable market share.

#### **6.5 Target Market**

The target market for the products of LoretoFarm are first and foremost, the middle income populations in urban centres who have become increasingly conscious of their wellness. Specifically, the probiotic yoghurt will be introduced into the market through the clients of Loreto Institutions, who, after becoming loyal customers will widen the farm's market segment through referrals.

#### **6.6 Marketing Approach**

LoretoFarm will adopt stringent quality standards and measures and will ensure reliability in delivery. The products will be heavily publicized through the network of Loreto associates. Pamphlets and brochures detailing the health benefits of the products will be disseminated widely and social media utilized to create publicity.

## **6.7 Technology and Operations**

To begin with, LoretoFarm will produce on small scale using the technology in the industry. It will employ a qualified production manager, and invest heavily in research and development to ensure continuous improvement and re-design of product to respond to the ever-changing tastes and preferences of its target market.

LoretoFarm will take advantage of the experience, qualifications, commitment and goodwill of the current team of management. The team will avail of training opportunities in order to remain relevant in the dynamic industry.

## **6.8 Financial Highlights**

The projected sales of LoretoFarm per month will be sh. 2,285,700, while in a year sales are projected to be sh. 15,428,400. Currently, the value of the fixed assets of the farm is sh. 622,678,000. The firm's Gross profit is 80%. The farm's return on equity is 84.3%, while the return on investment is 26.8%. The farm will reach the breakeven level in 2020 at sh.5, 873,282 sales.

## **6.9 Financial Need**

Loreto Farm needs Kshs 3,208,000 to buy equipment for processing milk, and to set up the building where the production will take place. This money will be received as equity capital from the management of Loreto Eastern Africa Province.

## **6.10 Social Impact**

LoretoFarm will contribute towards building the skills capacity of five farm workers and 50 farmers annually. About 400 households will consume healthy organic milk and yoghurt, thus curbing the lifestyle diseases epidemic. This will also translate to reduced expenditure on medical bills. The farm will offer employment to many. The incomes earned will contribute to higher standards of living, and food security. The use of organic farm inputs like organic manure will lead to environmental conservation and improved soil quality – hence better yields.

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## APPENDICES

### Appendix I: Introductory Letter

Dear Respondent,

I am a student at Tangaza University College pursuing a Master's degree in Business Administration in Social Entrepreneurship. As a partial fulfillment of the course, I am conducting a study on *Assessment of the Influence of Competitive Strategies on Performance of Small and Medium Dairy Processors in Nairobi County*.

Please take a few minutes to answer the attached questionnaire. Your contributions and answers will be treated with utmost confidentiality and no names of respondents will be published in the final research document.

Your assistance and cooperation will be highly appreciated.

Yours Sincerely,

**Veronica Mwangangi**

## Appendix II: Questionnaire

(Adapted from Atikiya, 2015).

### Section A: Organization Profile

1. What is the category of ownership of your enterprise (indicate by a tick  $\checkmark$ )

- a) Sole proprietorship
- b) Partnership
- c) Registered Company
- d) Any other (Specify) .....

2. What is your level of responsibility in the organization?

- a) Top level management
- b) Head of department
- c) Head of specific firm operations
- d) Oversee certain organization operations
- e) Other (specify) .....

3. For how long has your firm been operating?

- a) 0 - 5 years
- b) 6 - 10 years
- c) 11 - 20 years
- d) 21 years and above

4. Indicate the number of full-time employees of your firm

- a) 1 - 9 full time employees
- b) 10 - 49 full time employees
- c) 50 - 249 full time employees
- d) 250 and above full time employees

5. How many branches does your firm have? .....

## Section B: Competitive Strategies

### Part I: Cost Leadership Strategy

6. By use of a tick (✓), indicate the extent to which the following aspects apply to your firm.

**Key:** 5 – to a very large extent    4 -- to a large extent    3 – to a moderate extent  
 2 – to a low extent    1 – Not at all

	Strategy	5	4	3	2	1
a.	The firm emphasizes on cost cutting and effective utilization of its resources					
b.	The firm has access to low cost raw materials					
c.	The firm serves many industry segments					
d.	The firm sells standardized products					
e.	The firm takes advantage of unskilled labour surpluses					
f.	The firm charges lower prices than its competitors					
g.	The firm heavily invests in sales promotion					
h.	The firm retains employees by offering them benefits and promotion opportunities					
i.	The firm gives its customers discounts					
j.	The firm constantly reduces labour costs by use of automation					
k.	The firm sources supplies and equipment from the suppliers who provide discount					
l.	The firm outsources functions to control costs					
m.	The firm identifies under-performing areas and carries out corrective measures in order to cut costs					
n.	The firm buys raw materials Just In Time (JIT)					
o.	We always strive to reduce cost in administrative activities					

## Part II: Differentiation Strategy

7. State how the firm strives to create a unique image of itself

- a) Through company logo [ ]
- b) Through company colours [ ]
- c) Use of staff uniform with company logo [ ]
- d) Other (specify) .....

8. By use of a tick (√), indicate the extent to which the firm uses the strategies that follow:

**Key:** 5 – to a very large extent      4 -- to a large extent      3 – to a moderate extent  
 2 – to a low extent      1 – Not at all

	Strategy	5	4	3	2	1
a	The firm stresses superior product design, and superior customer service					
b.	There is emphasis on production of superior products					
c.	The firm heavily invests in research and development					
d.	The firm safeguards patents and intellectual property					
e.	The services and products offered to customers are of high quality.					
f.	The firm has unique technical expertise, talented and experienced personnel					
h.	The quality of purchased inputs is of prime importance					
i.	There is rigorous quality control – the firm strives to be a quality leader					
j.	The firm constantly carries out new product development/improvement to meet the changing tastes and preferences of customers					
k.	Great importance is laid on product features like functionality, durability, colour, size, shape, taste, packaging					
l.	The firm strives to maintain and protect its brand image					
m.	The firm makes conscious efforts to make its products different from those of competitors					
n.	The firm introduces more innovative products than its competitors					
o.	The products of the firm have a strong brand identification					
p.	The firm strives to build strong reputation within the industry					



### Part III: Cost Focus Strategy

9. By use of a tick (√), indicate the extent to which the following factors apply to your organization:

**Key:** 5 – to a very large extent    4 -- to a large extent    3 – to a moderate extent  
 2 – to a low extent    1 – Not at all

	Statement	5	4	3	2	1
a.	The firm sets a lower selling price for a particular market segment					
b.	Discounts are offered to a particular market segment					
c.	There are low cost promotional activities that target a particular market segment					
d.	Low cost delivery is arranged for the particular market segment					
e.	There is efficient and low cost service for the narrow strategic market					

### Part IV: Differentiation Focus Strategy

10. By use of a tick (√), indicate the extent to which the following statements relate to your organization.

**Key:** 5 – to a very large extent    4 -- to a large extent    3 – to a moderate extent  
 2 – to a low extent    1 – Not at all

	Statement	5	4	3	2	1
a.	The firm develops superior products for a particular market segment/niche					
b.	We offer tailored services/product to meet customer demand for a particular market/segment					
c.	The firm effectively serves the specialized/unique needs of a niche market					
d.	The firm has exclusive control over the production of the milk it processes					
e.	We quickly respond to changes in demand of our customers					
f.	We rigorously produce products/services for higher price segments					
g.	We always emphasize marketing specialty products					

### Section C: Performance of the Firm

11. Indicate by a tick (✓) the main types of your firm's customers

- a) Individuals
- c) Institutions/organizations

15. Please rate the following areas in terms of overall performance of your dairy firm since implementation of the competitive strategies. Please tick (✓) in the applicable box.

	Statement	Greatly Increased	Average Increase	Slight Increase	No Increase at all
a	Number of firm's customers				
b.	Number of litres of milk processed per day				

12. On a Likert scale of 1 – 5, indicate with a tick (✓) the influence of competitive strategies on the growth of sales of your firm per year.

5 To a Very Large Extent

4 To a Large Extent

3 To a Moderate Extent

2 To a Slight Extent

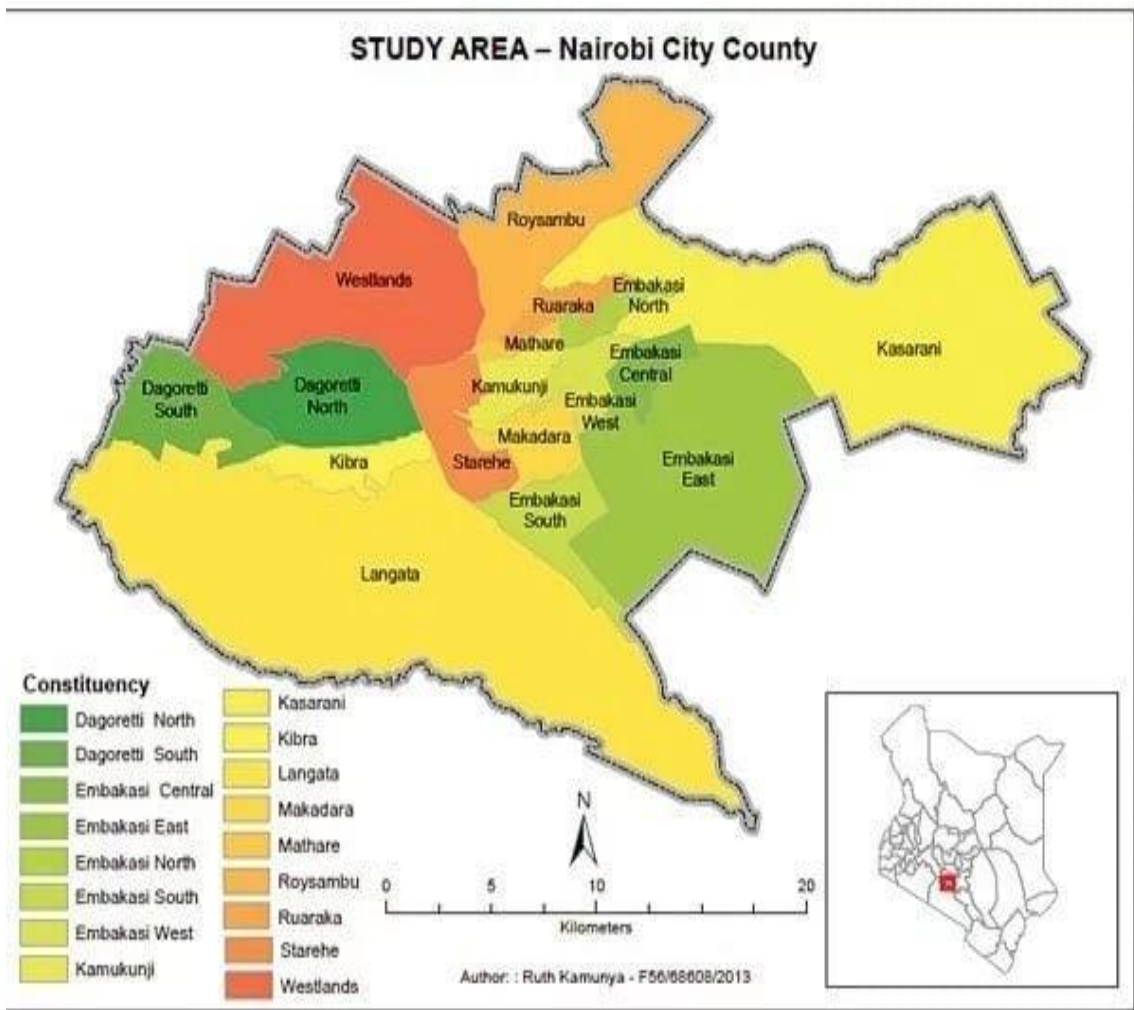
1 Not at all

13. To what extent has the competitive strategies your firm has been implementing influenced the growth of the sales of the firm. Please tick (✓) in the applicable box.

Competitive Strategy	Extent of Sales Growth				
	To a very large extent	To a large extent	To a moderate extent	To a slight extent	Not at all
a Cost Leadership Strategy					
b. Differentiation Strategy					
c. Cost Focus Strategy					
d. Differentiation Focus Strategy					

*Thank you for accepting to participate in this research*

**Appendix III: Map of Nairobi County (study area)**



Source: Kenya National Bureau of Statistics (2010)

## Appendix IV: Research Permit from Tangaza University College



# TANGAZA UNIVERSITY COLLEGE

The Catholic University of Eastern Africa

DIRECTORATE OF POSTGRADUATE STUDIES & RESEARCH

E-mail: [dir.pgsr@tangaza.ac.ke](mailto:dir.pgsr@tangaza.ac.ke) Website: [www.tangaza.ac.ke](http://www.tangaza.ac.ke)

OUR Ref: DPGSR/ERC/05/2019

Date: 15<sup>th</sup> May 2019

To The Commission Secretary,  
National Council for Science, Technology and Innovation  
P.O. Box 30623,  
Nairobi – Kenya.

Dear Sir/Madam,

**Re: Research Permit for Veronica M. Mwangangi**

This is to confirm to you that the person named above is a student at Tangaza University College (TUC). She is registered in the Institute of Social Ministry in Mission (Reg. No 16/00596) and she is pursuing a degree in Master of Business Administration in Global Business and Sustainability, Social Entrepreneurship Track.

Veronica has met all our provisional academic requirements leading to data collection. However, she cannot proceed to the field before she gets a Research Permit from the National Council of Science, Technology and Innovation (NACOSTI). Kindly assist her to process the permit for the same purpose. Thanking you in advance for your cooperation

Yours sincerely,



**Dr. Daniel M. Kitonga (Ph.D.)**

Director, Postgraduate Studies & Research

CC:

Dr. Aloys Otieno Ojore – Programme Leader, MA Social Transformation (ISMM)

## Appendix V: NACOSTI Research Authorization



### NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,  
2241349, 3310571, 2219420  
Fax: +254-20-318245, 318249  
Email: dg@nacosti.go.ke  
Website: www.nacosti.go.ke  
When replying please quote

NACOSTI, Upper Kabete  
Off Waiyaki Way  
P.O. Box 30623-00100  
NAIROBI-KENYA

Ref. No. **NACOSTI/P/19/35507/30699**

Date: **27<sup>th</sup> May, 2019**

Veronica Mwikali Mwangangi  
Tangaza University College  
P.O. Box 15055-0509  
**NAIROBI.**

#### **RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on "*Assessment of the influence of competitive strategies on financial performance of Small and Medium Dairy Processors in Nairobi County*" I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **27<sup>th</sup> May, 2020**.

You are advised to report to **the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a **copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

  
**BONIFACE WANYAMA**  
**FOR: DIRECTOR-GENERAL/CEO**

Copy to:

The County Commissioner  
Nairobi County.

The County Director of Education  
Nairobi County.

Approved  
28/5/2019

**COUNTY COMMISSIONER**  
**NAIROBI COUNTY**  
P.O. Box 30124-00100, NBI  
TEL: 341666

## Appendix VI: Research Authorization from Ministry of Education



Republic of Kenya  
MINISTRY OF EDUCATION  
STATE DEPARTMENT OF EARLY LEARNING & BASIC EDUCATION

Telegrams: "SCHOOLING", Nairobi  
Telephone: Nairobi 020 2453699  
Email: [rcenairobi@gmail.com](mailto:rcenairobi@gmail.com)  
[cdenairobi@gmail.com](mailto:cdenairobi@gmail.com)

REGIONAL DIRECTOR OF EDUCATION  
NAIROBI REGION  
NYAYO HOUSE  
P.O. Box 74629 - 00200  
NAIROBI

When replying please quote

Ref: RCE/NRB/GEN/1/VOL. 1

DATE: 28<sup>th</sup> May, 2019

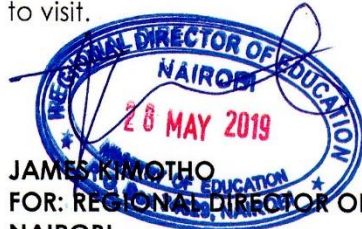
Veronica Mwikali Mwangangi  
Tangaza University College  
P O Box 15055-0509  
NAIROBI

**RE: RESEARCH AUTHORIZATION**

We are in receipt of a letter from the National Commission for Science, Technology and Innovation regarding research authorization in Nairobi County on "**Assessment of the influence of competitive strategies on financial performance of Small and Medium Dairy Processors in Nairobi County**".

This office has no objection and authority is hereby granted for a period ending **27<sup>th</sup> May, 2020** as indicated in the request letter.

Kindly inform the Sub County Director of Education of the Sub County you intend to visit.



JAMES KIMOTHO  
FOR: REGIONAL DIRECTOR OF EDUCATION  
NAIROBI

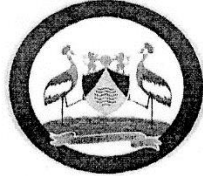
c.c

Director General/CEO  
Nation Commission for Science, Technology and Innovation  
NAIROBI



## Appendix VII: Research Authorization from Nairobi City County

NAIROBI CITY COUNTY



TELEGRAM "SCHOOLING"  
TELEPHONE: 2221166/224281  
EXT: 2426 /2590

CITY HALL ANNEXE:  
P. O. BOX 30298 GPO- 00100,  
NAIROBI, KENYA

EDUCATION, YOUTH AFFAIRS & SOCIAL SERVICES SECTOR  
EDUCATION DEPARTMENT

---

Ref. GL/NC/141/VOL VI/112

28<sup>th</sup> May, 2019

Veronica Mwikali Mwangangi  
Tangaza University College  
P.O. Box 15055-0509  
**NAIROBI**

**RE: RESEARCH AUTHORIZATION**

Following your application to carry out Research and Subsequent approval by National Commission for Science, Technology and Innovation vide letter Ref: **NACOSTI/P/19/35507/30699** dated **27<sup>th</sup> May, 2019**;

I am pleased to inform you that authority has been granted to you to carry out research on "**Assessment of the influence of competitive strategies on financial performance of Small and Medium Dairy Processors in Nairobi County.**"

On conclusion of the study, you are expected to submit a copy of the research findings to the undersigned:



George P. Letema

**AG. DEPUTY DIRECTOR – QUALITY ASSURANCE & STANDARDS & PROJECTS**

Copy to: Chief Officer – Education, Social Services & Gender  
Director City Education

## Appendix VIII: Report of Plagiarism Test

### ASSESSMENT OF THE INFLUENCE OF COMPETITIVE STRATEGIES ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM DAIRY PROCESSORS IN NAIROBI COUNTY

#### ORIGINALITY REPORT

<b>23%</b>	<b>17%</b>	<b>7%</b>	<b>18%</b>
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

#### PRIMARY SOURCES

<b>1</b>	Submitted to Kenyatta University Student Paper	<b>3%</b>
<b>2</b>	Submitted to KCA University Student Paper	<b>1%</b>
<b>3</b>	pdfs.semanticscholar.org Internet Source	<b>1%</b>
<b>4</b>	Submitted to Mount Kenya University Student Paper	<b>1%</b>
<b>5</b>	ir.jkuat.ac.ke Internet Source	<b>1%</b>
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