The Influence of Cost Leadership Strategy on the Performance of Tea Processing Factories in Murang'a County, Kenya

Mbaru Regina Wairimu[1], Dr. Caleb Kirui[2]
[1,2]*Department of Management Science, School of Business, Kenyatta University, Kenya*

Abstract: **In today's rapidly changing economic and business environments tea factories in Kenya compete for customers, revenue, market share with products and services that meet customer's needs. The Kenyan tea producing industry has been in decline since 2000 which culminated in closure of most of the tea estates. Tea processing factories in Murang'a County, Kenya in particular faces unprecedented challenges; a shift in consumer demand and habit, a changing climate, resource constraints and mechanization of farming are converging to put pressure on an industry. Therefore, this study aimed at investigating the influence of cost leadership strategy on the performance of tea processing factories in Murang'a County, Kenya. This study employed a descriptive survey design. The study targeted 9 tea processing factories in Murang'a County, Kenya. The total number of the respondents was 407 comprising of managers and support staff. The study used stratified sampling method and simple random sampling technique to select the respondents. Quantitative data was analyzed using descriptive statistics. The study established a positive and significant relationship between differentiation strategy, cost leadership strategy and focus strategy on organizational performance. The study established a positive and significant relationship between cost leadership strategy and organizational performance. The study concluded that cost leadership strategy focus on resource organization. The goal is to produce goods or services at the lowest possible cost by organizing every potential resource around the current production methods. The study recommended that the tea factories should offer a lower price entry with a product offering a competitive advantage in terms of quality. Carry out Research and Development (R&D) breakthroughs to advance technology for less expensive production or distribution.**

Keywords: **Cost Leadership Strategy, Organizational Performance**

I. INTRODUCTION

The dynamism of the environment implies that the organization has constantly redesigned their strategies in order to remain competitive. These organizations need to adjust to the environment for them to achieve their goals and objectives (Pearce & Robinson, 2012). According to Huse and Gabrielson (2014) globalization, competition and technological changes in the environment have in the recent past forced organizations to adjust their ways of doing things. The adoption of a clear strategic perspective in organizations is one of the factors that affect the performance of these organizations. Therefore, there is need for tea processing factories to implement good strategy that can enable them to survive and gain a sustainable competitive advantage.

Organizations have found it necessary in recent years to engage in strategic thinking in order to achieve their corporate goals (Berry, 2017). According to Machuki and Aosa (2016) the key concern over time in strategic management has been how to improve performance and effectiveness of firms. The authors further observe that the changes and predictability in the external business environment in which firms operate determines how they fit competitive strategies and their eventual performance. Therefore, the choice of competitive strategies is partly determined by firm's competitive forces in the market because firms have to match the turbulence in the environment with their aggressiveness.

The business environment in the last few decades has been faced with numerous changes due to factors such as globalization, adoption of technology, fragmented markets and liberalization of industry rules (Hill, Jones & Schilling, 2014). According to Camisón and Villar-López (2014) the organizations that seek to survive must be fast enough to respond to the pressures to compete on levels unrivalled in the past. Therefore, organizations that survive the turbulent business are those that incorporate a strategy in their long-term plan. These strategies are aimed at enabling the firm to gain competitive advantage over their rivals in the market and to enhance long-term performance and profitability.

Organizational performance is the actual productivity of an organization measured against its projected goals and objectives (Upadhaya, Munir, & Blount, 2014). The performance of an organizational is based on the perception that the organization is comprised of valuable resources that include personnel, physical and capital assets that are used to achieve a shared goal. In general, Matthew, Grawhich, and Barber (2014) observe that organizational performance is determined by the organization's capability to respond to threats and opportunities in an effective and efficient manner, with full knowledge of the strengths and weakness at hand.

Performance of an organization is measured by established measures of efficiency and effectiveness and compliance with rules and regulation. It also entails measures to safeguard and conserve environment (Teeratansirikool, Siengthai, Badir & Charoenngam, 2013). Vanderstraeten and Matthyssens (2012) indicate organizational performance as a metric that relates to how an organization handles a given request or acts resulting in successful thing or practical application and use of knowledge as opposed to merely accumulating and possessing it. Therefore, it can be argued that organizational performance is what comes out of the strategies and operations of an organization and it is the degree at which an organization attains its expectations.

Cost leadership strategies are based on a firm's ability to provide a product or service at a lower cost than its rivals (Birjandi, Jahromi, Darasi & Birjandi, 2014). The basic operating assumption behind a low-cost leadership strategy is to acquire a substantial cost advantage over other competitors that can be passed on to consumers to gain a large market share. According to Cavusgil, Ghauri and Akcal (2013) a low-cost strategy then produces competitive advantage when the firm can earn a higher profit margin than results from selling products at current market prices. In many cases, firms attempting to execute low-cost strategies aim to sell a product that appeal to an average customer in a broad target market.

Kenya's overall economic and social development is highly dependent on the growth and development of the agricultural sector. Currently, tea is the single leading cash crop in Kenya which makes significant contribution to the economy (Ministry of Agriculture Report, 2019). In the year 2018, the country produced 399 metric tons of made tea, earning Kshs. 97 billion in foreign exchange. Tea is the main cash crop grown in Kenya and earns the country a lot of money. There are various factories in Murang'a County (See Appendix IV) that supply Kenya with tea for both local use and foreign exchange.

Firms need competitive strategies to enable them overcome the competitive challenges they experience in the environment where they operate. A competitive strategy therefore enables a firm to gain a competitive advantage over its rivals and sustain its success in the market (Gloria & Ding, 2015). Maina (2018) observe that competitive strategies employed by Kenya's Tea factories vary widely depending on the operating environment. The current operational set up in Tea sector is a dynamic one and highly competitive with the emergence of many smallholder factories. To ensure survival and sustainability in the market place, these factories need to adopt competitive strategies to ensure that they outperform their competitors.

Statement of the Problem

Superior performance is achieved through proper implementation of successful strategies. The ability of firms to command competitive advantage depends on the sustainability of the competitive advantage it holds (Thathi, 2013). According to Murimiri (2015) the challenges facing the tea processing companies in Kenya include increased competition from estates and new entrants in to the tea production, processing and management. This has the potential to destabilize the small-scale tea growers in various geographical regions. There is high demand for transparency and accountability in managing the small tea grower sub-sector which is brought about by the shareholder empowerment through the privatization process.

Currently Kenya is ranked third behind China and India in tea production. Kenyan tea is also one of the top foreign exchange earners, alongside tourism, horticulture and Kenyan coffee (Uniliver, 2014). In the year 2010, the country produced 399 metric tons of made tea, earning Kshs. 97 billion in foreign exchange (Uniliver, 2013). This represents about 26% of the total export earnings, and about 4% of the Gross Domestic Product (Tea Research Foundation of Kenya, 2014). However, according to Uniliver (2014) report the future of this much-loved beverage is uncertain. The tea industry faces unprecedented challenges; a shift in consumer demand and habit, a changing climate, resource constraints and mechanization of farming are converging to put pressure on an industry which recognizes it needs to have competitive strategies to create a sustainable future.

Mulande (2012) carried out a study on competitive strategies adopted by coffee roasters and packers in Kenya and found that the success in sale of roasted coffee has been achieved due to development o f strategies that meet the market requirements. However, exploratory research design that inhibit generalization due to small sample size used. Keraro, Mokamba, Cheluget, Kithitu and Mbogo (2012) study examined strategies for enhancing effective management of tea factories in a liberalized smallholder tea subsector in Kenya and revealed that new entrants into the smallholder tea growing sub-sector had posed stiff competition. However, A survey design was used which has challenges in validity and reliability of results. Wamalwa (2014) study investigated sustainable supply chain management as a strategic tool for competitive advantage in tea industry in Kenya and found a weak positive relationship between strategic product development practices and competitiveness. However, the study only covered one organisation and therefore cannot be used to generalise. Therefore, this study sought to investigate the influence of competitive strategies on organizational performance.

II. LITERATURE REVIEW

Theoretical Review

The balance score card is a strategic performance measurement model which is developed by Kaplan and Norton (1997) who observe that the balance score card is a business framework used for tracking and managing an organization's strategy. The balance score card framework is based on the balance between leading and lagging indicators, which can respectively be thought of as the drivers and outcomes of the organizational goals. According to Norreklit (2010) balance score can help provide information on the chosen strategy more, manage feedback and learning processes and determine the target figures. The (operational) actions are set up with measurable indicators that provide support for understanding and adjusting the chosen strategy. The starting points of the balanced scorecard are the vision and the strategy that are viewed from four perspectives: the financial perspective, the customer perspective, the internal business processes and learning growth. Balance score card was relevant to the study as it helps the organizational managers to set up a vision, mission and strategic objectives of the organization, perform a stakeholder analysis to gauge the expectations of customers and shareholders, make an inventory of the critical success factors, translate strategic objectives into individual goals, set up key performance indicators to measure the objectives, determine the values for the objectives that are to be achieve and translate the objectives into operational activities.

Empirical Review

A study carried out by Atikiya, Mukulu, Kihoro and Waiganjo (2015) examined the relationship between cost leadership strategy and the performance of manufacturing firms in Kenya. A survey questionnaire and an interview guide was used to collect data from 131 firms drawn from 12 key industrial subsectors located within Nairobi and its environs. The study adopted descriptive and explanatory research design. The findings revealed that performance of manufacturing firms are significantly influenced by cost leadership strategy. However, the study used explanatory research design which uses small sample sizes and thus findings cannot be generalized to a larger population.

Marangu, Mwiti and Thoronjo (2017) study analysed the influence of cost leadership strategy on organizations' competitiveness of Sugar Firms in Kenya. Descriptive cross-sectional research design was used in this study. Questionnaires were the data collection instrument of this study mainly to collect the primary data. Correlation analysis was carried out in order to measure strength of association between cost leadership strategies. The study concluded that there was a statistically significant influence of cost leadership strategy on organization competitiveness. However, the study was based on Sugar Firms in Kenya using descriptive cross-sectional research design.

Chepchirchir, Omillo and Munyua (2018) study investigated the effect of Cost Leadership Strategy on Organizational Performance of Logistics Firms at Jomo Kenyatta International Airport, Kenya. The study data came from 10 logistics firms with active websites operating at JKIA Nairobi. The respondents identified were selected using simple random sampling technique. Analysis of data involved use of descriptive and inferential statistics. It was found out that cost leadership had a significant positive effect on logistics firm's performance. However, the study focused on Logistics Firms at Jomo Kenyatta International Airport, Kenya

III. RESEARCH METHODOLOGY

This study employed a descriptive survey design. The study targeted 9 tea processing factories in Murang'a County, Kenya. The total number of the respondents was 407 comprising of managers and support staff. The study used stratified sampling method and simple random sampling technique to select the respondents. Quantitative data was analyzed using descriptive statistics.

IV. FINDINGS

The findings of relationship between cost leadership strategy and the performance of tea processing factories in Murang'a County, Kenya are indicated in Table 1.

Table 1: Cost Leadership Strategy

	Mean (M)	Standard Deviation (SD)
the factory produces its products with minimal production cost to remain competitive in the tea industry	4.51	0.605
Lower cost strategy helps the factory to gain a competitive advantage by reducing its operating costs below its competitors	4.61	0.499
Cost leadership strategy focus on creating low-cost operations within factory market and industry which leads to higher profit margins	3.78	1.524
It enables the factory to gain future advantage because it becomes possible for the factory to remain in business as a working capital is further increased from the profits gained	3.36	1.476
when production costs are kept low, new competition in the market is limited as competitors may struggle to achieve the same level of profits	4.32	1.018
Average Score	4.12	1.024

Source: Research Data (2020)

The results in Table 4.4 indicates that the respondents strongly agreed that lower cost strategy helps the factory to gain a competitive advantage by reducing its operating costs below its competitors and that t the factory achieves low operational costs and becomes more profitable as shown by mean score of 4.61 and 4.51 respectively with standard deviation of 0.499 and 0.605. This in agreement with Chepchirchir *et al.* (2018) study which investigated the effect of Cost Leadership Strategy on Organizational Performance of Logistics Firms at Jomo Kenyatta International Airport, Kenya and it was found out that cost leadership had a significant positive effect on logistics firms' performance.

The respondents agreed that when operational costs are kept low, new competition in the market is limited because competitors may struggle to achieve the same level of profits and that cost leadership strategy focus on creating low-cost operations within factory market and industry which leads to higher profit margins as shown by mean score of 4.32 and 1.524 and a standard deviation of 1.018 and 1.524 respectively. This is consistent with Marangu *et al.* (2017) study which analysed the influence of cost leadership strategy on organizations' competitiveness of Sugar Firms in Kenya and concluded that there was a statistically significant influence of cost leadership strategy on organization competitiveness.

The respondents indicated to a moderate extent that differentiation strategy enables the factory to gain future advantage because it becomes possible to offer a better price to their consumers as shown by mean of 3.36 and a standard deviation of 1.476. This is in contrary to Atikiya *et al.* (2015) study findings which revealed that performance of manufacturing firms are significantly influenced by cost leadership strategy and also Chepchirchir *et al.* (2018) study which found out that cost leadership had a significant positive effect on logistics firms performance.

V. CONCLUSIONS AND RECOMMENDATIONS

The study concluded that cost leadership strategy focus on resource organization. The goal is to produce goods or services at the lowest possible cost by organizing every potential resource around the current production methods. Cost leadership strategy is focused on creating low-cost operations within their market and industry. When costs are lower for a tea factory, then there are fewer financial threats that could put the organization out of business. Implement cost leadership strategy the tea factories successfully give themselves a future advantage as well. Because they are able to offer goods produced at very low costs, new competition in the market is limited because competitors may not match the same level of profits.

The study recommended that the tea factories should target higher profits for the same product offering a competitive advantage in terms of quality. Carry out Research and Development (R&D) breakthroughs to advance technology for less expensive production or distribution. Products with differentiation that are perceived as significant by a broad set of customers.

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