Influence of Cost Leadership Strategy on Organizational Performance of Private Hospitals in Mombasa County Kenya

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***Abstract*: This study aimed at ascertaining the influence of cost leadership on organizational performance of private hospitals in Mombasa County Kenya. The study was guided by Institutional theory. The study utilized census and adopted a descriptive survey design. Using a target population of 52 respondents composed of Chief executives and Branch managers, the study employed quantitative research methodology and structured questionnaires was used to collect data. Pilot test was done to measure validity and reliability of research instruments. Descriptive as well as inferential statistics were computed to measure the relationship between variables. The results showed that there was a positive correlation between cost leadership strategy and the dependent variable organizational performance. In conclusion Cost leaders seek to improve efficiency and control costs throughout the organizations supply chain. The study recommended that Private hospitals should open more branches in different parts of Mombasa County.**

***Keywords*; Cost Leadership, Performance, Private Hospitals.**

I. BACKGROUND OF THE STUDY

Health care is one of the key pillars of economic development in the sense that, any economy needs a healthy workforce for sustained productivity, economic growth and development. The private healthcare facilities in Kenya focuses on making more profits, the sector is growing fast and with the main aim of delivering the best healthcare services to people in the country. Best quality doctors are employed and they play a major role in private healthcare facilities.

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.

Cost leadership strategies are supported a firm's ability to supply 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 considerable cost advantage over other competitors which will be passed on to consumers to realize an outsized 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 or service that appeal to a mean customer during a broad target market.

Private healthcare facilities are always improving on efficiency by employing the best doctors, nurses and other qualified staffs. And as the public healthcare facilities keep facing challenges every day, like the doctors and nurses strike, more patients keep flocking the private healthcare facilities even if it means spending more money. The technology has also eased the service delivery of the most private healthcare facilities, patients would not take a lot of time to get the medical service. Workers are motivated and thus, deliver in performance, Carolle (2016).

In Uganda, there is a poor health system, lack of skilled medical staffs, socio-economic gap where the poor have very few options of accessing health facilities, the spread of HIV/AIDS disease has proved a major challenge in that region. Studies are required to look into strategies of improving the situation in that region, Kiwanuka (2008).

In Nigeria, the healthcare system is not developed properly. The poor cannot afford the health care facilities that are too expensive for them while the public healthcare system has little to offer because of poor management of the health system, unskilled staffs, and lack of resources. Much is to be done or implemented with regards to improving healthcare systems in Nigeria, Pharm (2011).

Organizational performance is the real productivity of an organization tested against its projected goals and objectives (Upadhaya, Munir, & Blount, 2014). The performance of an organizational is based on the notion that the organization is consists of valuable resources that include qualified personnel, physical infrusture and capital assets that are used to achieve a shared achievable goals. In general, Matthew, Grawhich, and Barber (2009) 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.

Statement of the Problem

The aspect of cost leadership strategies is very important on organizational performance of private hospitals in Mombasa County. Private hospitals in Mombasa County would do better if they adopt cost leadership strategies to meet customers' needs and at the same time maximize profits. Lukas (2013) analyzed the growth strategies adopted by private hospitals in Nairobi. The study aimed at determining the effect of market development, market penetration, diversification, product development on organizational performance of private hospitals. Using a sample size of 30 respondents, the study involved mean, standard deviation to review data. The researcher failed to include generic strategies to help in organizational performance of the private hospital. Previous studies have endeavoured to explore on effects of competitive strategies adopted by other industries on performance. Mobile telecommunications Companies in Kenya, Kamau, (2013) conducted a study on Competitive Strategies Adopted by Private Universities in Kenya. Another study done by 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 10logistics firms with active websites operating at JKIA Nairobi. Gituku and Kagiri (2015) conducted a study to investigate the effects of competitive strategies on organizational performance of middle level colleges in Thika town. Therefore none of the studies focused on private hospitals within Mombasa County. This study seeks to analyze the influence of cost leadership strategy on organizational performance of private hospitals in Mombasa County.

Purpose of the Study

The research was to evaluate influence of cost leadership on organizational performance of private hospitals in Mombasa County.

Significance of the study

The study will assist patients in having the opportunity to get all services under one roof through differentiation. We happen to have a lot of hospitals, but when it comes to all services under one roof, it becomes a major challenge. Therefore, this is emphasized through this study, under differentiation; the management can be able to offer all the services by having all facilities in regard to medical services.

II. THEORETICAL LITERATURE REVIEW

Institutional Theory

Institutional theory was founded by William Scott the year 1995. It considers the role of the firm's environment and how it directly influences organization structure with its roles, procedures and job positions. The organizational structures provide a room for actions, procedures and norms. This theory highlights how institutions change over a period of time and how they have impact on strategic management, Richard (2013).

This theory is relevant to study because, organizations today must acquire a structure to help in coordinating functions, regulations and norms that will guide the firm towards its goals. The study focuses on cost leadership strategies adopted by private hospitals and with this theory its automatically applied for the effective performance of the organization.

III. EMPIRICAL LITERATURE REVIEW

Cost Leadership Strategy

Musila (2013) analyzed the growth strategies and the competitive advantage of commercial banks in Kenya. His research intended to establish growth strategies used by the commercial banks in Kenya. Operating with a sample size of 45 respondents the study applied mean, standard deviation and regression analysis to analyze data. The researcher established that commercial banks in Kenya adopt growth strategies to achieve the competitive advantage in the market. The study also established expansion strategy as one of the many strategies that banks have adopted. The study concluded the firms need to use product development strategies comprising of redesigning the existing product to suit customers and as a result will lead to market expansion. The study recommended that the firms should have clear formulation and plan implementation of strategies, and ensure these strategies are implemented, ensure the staffs have the right knowledge and skills for these strategies to become a success. Also the firm should participate in social responsibilities as this will enable customers have their firms in mind.

Michael (2014) analyzed the implementation of cost leadership strategy at Hashi Energy Ltd Kenya. The research aimed at determining the effect of expansion strategy at Hashi Energy Ltd, to investigate the challenges of implementing the expansion strategy at Hashi Energy Ltd. Taking sample size of 6 respondents, research applied mean and standard deviation. The study found that there were economic challenges that hashi energy ltd faced among other challenges like inadequate skills and resources that hinder a firm to expand. The study concluded that the firm needs a successful strategic plan to help in internationalization process. It should need to know the current position of the firm and its target markets. The study recommended mission statement that will clarify firm's directions, values, and objectives. Control framework should be put in place that would help in directing the firm into achieving its goals.

Josephine (2013) analyzed the implementation of expansion strategy in Kenyatta national hospital, Kenya. The study aimed at determining the implementation of expansion strategy in Kenyatta national hospital. To evaluate the challenges of implementing the expansion strategy in Kenya national hospital. Taking sample size of 21 respondents, the study applied mean and standard deviation to analyze data. The study found that there were several challenges that hinder the implementation of strategic plans in Kenya national hospital. The study concluded that the hospital had major challenges facing them while implementing the cost leadership strategy. The study recommended measures to be taken by the hospital management to overcome challenges while implementing strategic plans.

IV. METHODOLOGY

A descriptive survey design is adopted in this study. The design connects the study's questions or goals to the collected data. Survey designs result in a data description, whether in words, pictures, charts, or tables, and whether the data analysis shows or is merely descriptive. A research design is a study guidance plan or framework. The method is preferred as it allows data to be collected in natural settings from the respondents (Mugenda & Mugenda, 2010).

Target Population

The target population of the study was 52 private health care facilities found in Mombasa County in Kenya. The target population was comprised of 23 Chief Executives and 29 Branch Managers. A census method was employed as to target the whole population.

Constructions of Research Instruments

Research instruments as indicated by Oso and Onen, (2009) are the devices used to gather information. The researcher adopted a semi structured questionnaire to collect primary data with both open and closed ended questions. A five-point likert scale was adopted. Questionnaires represent ideal method of data collection in this type of research (Mugenda & Mugenda, 2009). The investigation tools items were developed to arrest information based on the objectives of the study.

Test for Reliability and validity of the study

Reliability of this study was tested using Cronbach's alpha coefficient. This was done on the pilot study. If the coefficient of Cronbach's alpha was less than 0.7, then the results were considered to be not reliable. The results were appraised valid enough if the Cronbach's Alpha was more than 0.7.

To ensure credibility, the questionnaires were discussed with the chief executives to get their input on whether the questionnaire will be able to harvest measurable answers. Their input determined if questionnaires needed review.

Data Collection Methods and Procedures

The respondents were given adequate time to make their responses but within the timelines convenient to them and the researcher or her assistant. Respondents were kindly informed that they had two weeks to fill and hand in the filled questionnaires.

V. DATA ANALYSIS TECHNIQUES AND PROCEDURES

This data was analyzed deploying descriptive and inferential statistics by using Karl Pearson's correlation and linear regression methods and was presented in the form of mean and percentages. The SPSS software version 24 was supportive on analyzing data. Data was presented using texts, figures and graphs.

Response Rate

The study targeted 52 employees of private hospitals in Mombasa County, Kenya. From the study, 42 out of the 52 sample respondents filled-in and returned the questionnaire making a response rate of 80.7% as in Table 1.

Table 1: Questionnaire Response Rate

	Frequency	Percentage
Respondents	42	80.7
Non-Respondents	10	19.3
TOTAL	52	100

Source: Field Data (2021)

According to Kothari and Gang, (2014) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent; therefore, this response rate was adequate for analysis and reporting.

Descriptive Analysis

Cost Leadership Strategy

Table 2: Cost Leadership Strategy

Descriptive Statistics			
	N	Mean	Std. Deviation
Lowering prices has attracted more clients to this hospital.	42	3.50	1.366
Maintaining your pricing has helped in maximizing profits.	42	3.83	1.378
Lowering prices has resulted to average profits.	42	4.07	1.644
Average		3.8	1.462

The objective of the study was to examine the effect of cost leadership strategy on organizational performance of private hospitals in Mombasa County. The statement that lowering prices has attracted more clients to this hospital had a mean score of 3.50 and a standard deviation of 1.366. The statement that maintaining your pricing has helped in maximizing profits had a mean score of 3.83 and a standard deviation of 1.378. The statement in agreement that lowering prices has resulted to average profits had a mean score of 4.07 and a standard deviation of 1.644. These results agree with Adamu, Zubairu and Ibrahim (2018) that firms adopt the cost leadership often focus on becoming the low-cost providers in the industry. There are varied sources of cost advantage depending on the industry's structure. They may include pursuing preferential access to raw materials, proprietary technology, economies of scale and other factors.

Organizational Performance

Descriptive Statistics			
	N	Mean	Std. Deviation
The competitiveness of the firm is a result of the high sales turnover	42	4.19	.862
The competitiveness of the firm is a result of the recorded profits by the firm	42	3.93	1.488
The competitiveness of the firm is a result of the high market share the firm enjoys.	42	4.21	1.240
Average		4.11	1.196

The statement in agreement that the competitiveness of the firm is a result of the high sales turnover had a mean score of 4.19 and a standard deviation of 0.862. The statement that the competitiveness of the firm is a result of the recorded profits by the firm had a mean score of 3.93 and a standard deviation of 1.488. The statement that the competitiveness of the firm is a result of the high market share the firm enjoys had a mean score of 4.21 and a standard deviation of 1.240. These results are in strong agreement with Jerop and Juma, (2018) that market share represents the percentage of an industry, or market's total sales that is earned by a company over a specified time period. It is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period.

Correlation Analysis

Correlation Analysis between Cost Leadership Strategy and Organizational Performance

To establish the relationship between the independent variable cost leadership strategy and the dependent variable organizational performance the study conducted correlation analysis which involved coefficient of correlation and coefficient of determination

Pearson Bivariate correlation coefficient was used to compute the correlation between the dependent variable (Organizational Performance) and the independent variables (Cost Leadership Strategy). According to Sekaran, (2015), this relationship is assumed to be linear and the correlation coefficient ranges from -1.0 (perfect negative correlation) to +1.0 (perfect positive relationship). The correlation coefficient was calculated to determine the strength of the relationship between dependent and independent variables (Kothari & Gang, 2014).

Table 3 Pearson Correlation Cost Leadership Strategy

Correlations			
		Organizational Performance	Cost Leadership Strategy
Organizational Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	42	
Cost Leadership Strategy	Pearson Correlation	.242**	1
	Sig. (2-tailed)	.000	
	N	42	42

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

According to the findings, it was clear that there was a positive correlation between the independent variable cost leadership strategy and the dependent variable organizational performance. The analysis indicates the coefficient of correlation, r equal to 0.242 for cost leadership strategy.

To assess the research model, a confirmatory factors analysis was conducted. The one factors was then subjected to linear regression analysis in order to measure the success of the model and predict causal relationship between independent variable (Cost Leadership Strategy), and the dependent variable (Organizational Performance).

Table 4 Coefficient of Determination (R^2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.694[a]	.482	.479	1.54414
a. Predictors: (Constant), Cost Leadership Strategy				

The model explains 48.2% of the variance (Adjusted R Square = 0.479) on organizational performance of private hospitals in Mombasa County. Clearly, there are factors other than the one proposed in this model which can be used to predict organizational performance. However, this is still a good model as Bryman and Bell, (2018) pointed out that as much as lower value R square 0.10-0.20 is acceptable in social science research. This means that 48.2% of the relationship is explained by the identified one factors namely cost leadership strategy. The rest 52.8% is explained by other factors in the organizational performance of private hospitals in Mombasa County not studied in this research. In summary the one factors studied namely, cost leadership strategy or determines 48.2% of the relationship while the rest 52.8% is explained or determined by other factors.

Regression Analysis

Regression Analysis between Cost Leadership Strategy and Organizational Performance

The study used ANOVA to establish the significance of the regression model. In testing the significance level, the statistical significance was considered significant if the p-value was less or equal to 0.05. The significance of the regression model was as per Table 5 below with P-value of 0.00 which is less than 0.05. This indicates that the regression model is statistically significant in predicting factors of organizational performance of private hospitals in Mombasa County. Basing the confidence level at 95% the analysis indicates high reliability of the results obtained. The overall Anova results indicates that the model was significant at F = 2.499, p = 0.000

Table 5 Analysis of Variance of Cost Leadership Strategy

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	45.958	1	45.958	2.499	.122[b]
	Residual	95.375	40	2.384		
	Total	101.333	41			
a. Dependent Variable: Organizational Performance						
b. Predictors: (Constant), Cost Leadership Strategy						

The researcher conducted a multiple regression analysis as shown in Table 6 so as to determine the relationship between organizational performance of private hospitals in Mombasa County and the one variable namely cost leadership strategy investigated in this study.

Table 6 Coefficients for Cost Leadership Strategy

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.291	1.088		9.459	.000
	Cost Leadership Strategy	.121	.055	.200	2.211	.030
a. Dependent Variable: Organizational Performance						

The regression equation was:
$Y = 10.291 + 0.121X_2$
Where;
Y = the dependent variable (Organizational Performance)
X1 = Cost Leadership Strategy

The regression equation above established that taking all factors into account (Organizational Performance of Private Hospitals in Mombasa County) constant at zero organizational performance of private hospitals in Mombasa County was 10.291. The findings presented also showed that taking all other independent variables at zero, a unit increase in cost leadership strategy would lead to a 0.121 increase in the organizational performance of private hospitals in Mombasa County.

V. SUMMARY OF THE FINDINGS

On cost leadership strategy, the study results revealed that lowering prices has attracted more clients to this hospital, that maintaining your pricing has helped in maximizing profits and lowering prices has resulted to average profits. On correlation, the study established that there is a strong positive between the independent variable cost leadership strategy and the dependent variable organization performance. On answering the research question how does cost leadership strategy affect organizational performance of private hospitals in Mombasa County? The results revealed that cost leadership strategy affects organizational performance of private hospitals in Mombasa County. A unit increase in cost leadership strategy leads to 24.2% increase in organizational performance of private hospitals in Mombasa County.

VI. CONCLUSION

The goal of the firm pursuing cost leadership strategy is to become the low-cost producer in the industry. A low-cost position gives a firm a defense against rivalry from competitors because its lower costs mean that it can still earn returns after its competitors have competed away their profits through rivalry. Cost leaders seek to improve efficiency and control costs throughout the organizations supply chain. This study sought to determine if these implications are held true for firms' pursuing cost leadership strategy. Based on the results of this study, cost leadership strategy affects the organizational performance of private hospitals in Mombasa County.

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