

Effect of Differentiation Strategy on the Performance of Manufacturing Firms in Kenya

*¹Rukia Atikiya, ²Elegwa Mukulu, ³John M. Kihoro, ⁴Esther W. Waiganjo

¹Jomo Kenyatta University of Agriculture and Technology
Entrepreneurship, Technology, Leadership and Management
P.O. Box 62000 – 00200, Nairobi, Kenya

²Jomo Kenyatta University of Agriculture and Technology
College of Human Resource Development
P.O. Box 62000 – 00200, Nairobi, Kenya

³The Co-operative University College of Kenya
P.O. Box 24814, Nairobi, Kenya

⁴Jomo Kenyatta University of Agriculture and Technology
College of Human Resource Development
P.O. Box 62000 – 00200, Nairobi, Kenya

*Corresponding author's email: [rukia_atikiya \[AT\] yahoo.com](mailto:rukia_atikiya [AT] yahoo.com)

ABSTRACT--- *The purpose of this paper is to establish the effect of differentiation strategy on the performance of manufacturing firms in Kenya. The study was anchored on Porter's competitive business strategy typology. A survey questionnaire and an interview guide was used to collect data from 131 firms out of the 170 targeted drawn from 12 key industrial subsectors located within Nairobi and its environs. The study adopted descriptive and explanatory research design. Pearson's correlation was used to indicate positive correlation between the input and the output variable and regression analysis was used to test the relationship between the constructs. The study confirms previous studies on positive relationship between differentiation strategy and firm performance. The study adds new knowledge to the literature on strategies adopted by manufacturing firms in a developing country context. The study concludes that manufacturing firms interested in enhancing their performance and staying ahead of competition should pursue differentiation strategy.*

Keywords--- Differentiation, Strategy, Firm performance, Competitive Strategy, Competition,

1. INTRODUCTION

Today's business environment has been highly complex and competitive Hellter (2010). As a result firms have been under pressure to seek new ways of gaining competitiveness (Asch & Salamen, 2002). According to Yoo, Lemak and Choi (2006), the ability to outperform competitors and achieve above average profits lies in pursuit of appropriate business strategy. Globalization similarly, has led to more intense competition among manufacturing firms (Baines and Langfield-Smith 2003) as such a differentiation strategy provides greater scope to produce products with more value. Perera et al., (1997) posits that focusing purely on a cost leadership strategy may no longer be appropriate to accommodate the diverse needs of contemporary manufacturing companies. The current study therefore focuses on differentiation strategy in manufacturing firms in Kenya and its effect on performance. The results indicate that differentiation strategy has positive significant influence on the performance of manufacturing firms in Kenya. Therefore managers of these firms should adopt differentiation strategy in order to stay ahead of competition and achieve sustainable performance.

2. LITERATURE REVIEW

According to Barney & Hesterley (2006), differentiation involves offering product or service perceived as unique industry-wide. Differentiation strategy can be based on many dimensions such as brand image, innovativeness, product quality, firm reputation. However successful differentiation must be based on features that are difficult for rival firms to

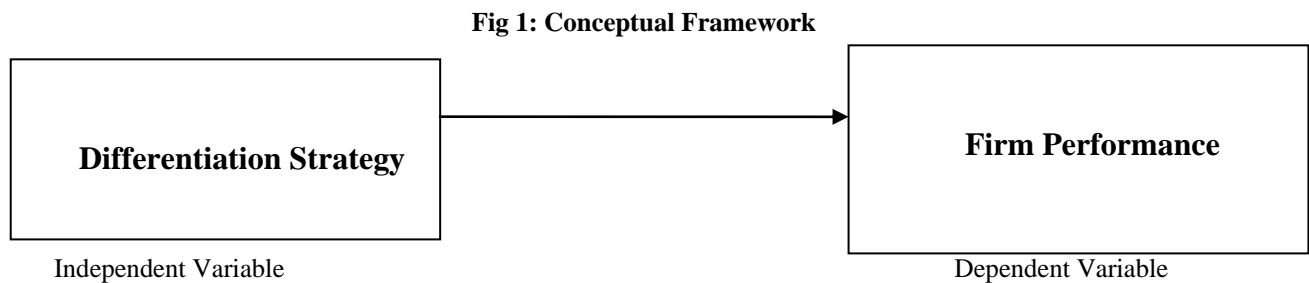
imitate. Allen & Helms (2006) aver that differentiation helps firm build customer loyalty by offering unique products or services thus helping them to perform better than competitors.

Morshett et al., (2006) further posit that firms following a differentiation strategy strive to create and market unique products for varied customer groups. The aim is to create superior fulfilment of customer needs in one or several product attributes in order to develop customer satisfaction and loyalty which can often be used to charge a minimum price for the products. Acquaah & Ardekani (2006) concurs that differentiation firms are able to achieve competitive advantage over their rivals because of the perceived uniqueness of their products and services.

Barney and Hesterley (2006) assert that the rarity of a differentiation strategy depends on the ability of individual firms to be creative in finding new ways to differentiate their products. As rivals try to imitate these firms' last differentiation move, creative firm will already be working on new moves and therefore always remain one step ahead of competition. Baum, Locke and Smith (2001) also suggest that firms implementing differentiation strategies strive to offer innovative and high-quality products to achieve the highest growth.

Conceptual Framework

The following figure depicts the conceptualization of the study based on the literature reviewed:



2.1 Theoretical Framework

This study adopted Porter's competitive strategy typology. According to Porter (1980, 1985) three generic competitive strategies namely overall cost leadership, differentiation and focus strategies helps create a defensible position that contributes to competitive advantage. He argues that a generic strategy should be pursued in a wholly single-minded way and that applying more than one generic strategy concurrently will result in poor performance. He further argues that the three generic strategies are approaches to performing better than the competition within an industry and that firms that do not adhere to one of these three strategies become 'stuck-in-the-middle' and have a weak strategy which most likely adversely affects profitability.

3. RESEARCH METHODOLOGY

To test the effect of differentiation strategy on performance of manufacturing firms, the study adopted descriptive and explanatory research design. The data was collected once over a period of one month from a sample of 131 firms out of the targeted 170 respondents. Pearson's correlation was used to indicate positive correlation between differentiation strategy and firm performance. Further regression analysis and F-statistics were used to explain the nature of relationship between the dependent and independent variables and the validity of the model respectively. R squared was also used to measure of the model goodness of fit.

3.1 Measurement of Variables

The study variables were measured using perceptual indicators. Differentiation strategy was measured using a five point likert type scale ranging from one (Strongly agree) to five (Strongly Disagree) on 13 items namely; we make conscious effort to differentiate our product from those of competitors, we offer a narrower range of products than our competitors, we continuously develop new products, we make conscious effort to differentiate our product from those of competitors, we offer a narrower range of products than our competitors, we continuously develop new products, we introduce innovative product better than our competitors, our company does not utilize much technology as a method of production, our major expenditure is on technology to differentiate product, we are always the first to introduce new products before our competitors, we heavily invest in research and development, our product/services have developed

strong brand identification, we strive to build strong reputation within the industry and we always follow actions of competitors. The Cronbach alpha was 0.77 which indicates internal reliability of the scale was satisfactory. Several parameters were used as a measure of firm performance. These include: sales growth rate, sales, profit growth rate, profit, profitability ratio and overall performance. Five point likert type scale ranging from one (much worse) to five (much better) was used. The Cronbach alpha was 0.9 which indicates satisfactory internal reliability of the scale.

3.2 Research Question

The research question under this study is:

Does differentiation strategy affect performance of manufacturing firms in Kenya?

4. RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Analysis for Differentiation Strategy

The study findings showed that majority 38.8% agreed that they make conscious effort to differentiate their products from those of their competitors while 35.7% agreed that they offer a narrower range of products than their competitors. 45.7% of the respondents agreed that they continuously develop new products. Secondly, majority 41.1% agreed that their company's does not utilize technology as a method of production, while 36.2% agreed that their major expenditure is on technology so as to differentiate their products and 39.5% agreed that they introduce innovative better products than their competitors. Thirdly, the results depicted that majority 39.5% agreed that they are always the first to introduce products before their competitors, while 42.3% agreed that they heavily invest on research and development. Finally, majority 50% agreed that their products/services have developed strong brand identification and 33.1% agreed that they always follow actions of competitors.

Table 4.1: Descriptive Statistics for Differentiation Strategy

Differentiation Strategy	% SD	D	N	A	SA	Mean	S.D
We make conscious effort to differentiate our product from those of competitors	0.8	10.1	17.8	38.8	32.6	3.9	1.0
We offer a narrower range of products than our competitors	2.3	27.1	16.3	35.7	18.6	3.4	1.1
We continuously develop new products	3.1	9.3	24.8	45.7	17.1	3.6	1.0
We introduce innovative product better than our competitors	1.6	7	18.6	44.2	28.7	3.9	0.9
Our company does not utilize much technology as a method of production	5.4	17.1	22.5	41.1	14	3.4	1.1
Our major expenditure is on technology to differentiate product	3.8	12.3	23.8	36.2	23.8	3.6	1.1
We are always the first to introduce new products before our competitors	3.1	10.1	33.3	39.5	14	3.5	1.0
We heavily invest in research and development	3.8	10	22.3	42.3	21.5	3.7	1.0
Our product/services have developed strong brand identification	1.5	3.1	10.8	52.3	32.3	4.1	0.8
We strive to build strong reputation within the industry	0.8	2.3	11.5	50	35.4	4.2	0.8
We always follow actions of competitors	8.7	16.5	29.9	33.1	11.8	3.2	1.1

n=131

SD=strongly disagree D=Disagree N=Neutral A=Agree SA= Strongly agree S.D=Standard deviation.

Correlation Analysis

The result indicate that there is a significant positive relationship between differentiation strategy and firm performance ($X = 0.374$, p -value = 0.00). Therefore, an increase in differentiation strategy in manufacturing firm leads to an increase in firm performance.

Table 4.2: Correlation Analysis

		X	Y
Differentiation	Pearson Correlation	1	.374**
	Sig. (2-tailed)		0
	N	130	126

** Significant at 0.01 level (2 tailed), * significant at 0.05 (2 tailed)

Key Y=Firm performance X=Differentiation strategy.

4.1 Regression Analysis

H₀₁: Differentiation strategy has no significant effect on performance of manufacturing firms in Kenya.

Differentiation Strategy and Firm Performance Model Summary

The coefficient of determination (R squared) of 0.14 shows that 14% of manufacturing firm performance can be explained by differentiation strategy. The adjusted R square of 13.3% depicts that differentiation strategy in exclusion of the constant variable explained the change in manufacturing firm performance by 13.3% the remaining percentage can be explained by other factors excluded from the model.

Table 4.3: Differentiation Strategy and Manufacturing Firm Performance Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.374a	0.14	0.133	0.65977

a Predictors: (Constant), Differentiation

Differentiation Strategy and Manufacturing Firm Performance ANOVA

The F statistics (R-squared) was used as a test for the model goodness of fit, in Table 4.3 (F=20.182, p value =0.00) shows that there is a significant relationship between differentiation strategy and manufacturing firm performance and at least the slope (β coefficient) is not zero.

Table 4.4: Differentiation Strategy and Manufacturing Firm Performance ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.785	1	8.785	20.182	.000b
	Residual	53.977	124	0.435		
	Total	62.763	125			

a Dependent Variable: Firm performance

b Predictors: (Constant), Differentiation

Differentiation Strategy and Manufacturing Firm Performance Regression Weights

The study hypothesized that differentiation strategy has no significant effect on performance of manufacturing firms in Kenya. The study findings depicted that there was a positive significant relationship between differentiation strategy and manufacturing firm performance ($\beta=0.48$ and p value=0.00). Therefore, a unit increase in differentiation strategy leads to an increase in manufacturing firm performance by 0.48. Since the p value was less than 0.05 the null hypothesis was rejected and the alternative hypothesis accepted. Therefore, we can conclude that differentiation strategy have a significant effect on manufacturing firm performance.

Table 4.5: Differentiation Strategy and Manufacturing Firm performance Regression Weights

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.069	0.407		5.077	0.00
	Differentiation	0.48	0.107	0.374	4.492	0.00

a Dependent Variable: Firm performance

5. DISCUSSION

The findings of the study contradict the hypothesis that differentiation strategy has no significant effect on performance of manufacturing firms in Kenya. Result of regression analysis indicated that differentiation strategy had significant effect on firm performance of manufacturing firm. The result is consistent with previous research (for example, Mosakowski 1993; Allen and Helms 2002) results which indicated a positive and significant relationship between product differentiation strategy and organizational performance. This finding also supports the works of Marques et al (2000), Silva, et al., (2000) and Jacome et al., (2002) which showed that organizations which followed a differentiation strategic choice tended to achieve higher performance relative to those organization which did not.

6. SUMMARY AND CONCLUSION

This study was designed to examine the effect of differentiation strategy on performance of manufacturing firms in Kenya. To investigate the relationship 131 firms were surveyed. The result of regression analysis indicated that differentiation strategy has significant effect on firm performance of these firms. The results therefore provides a valuable reference for top manufacturing companies in Kenya in terms strategy choice as adoption of differentiation strategy would help them achieve sustainable performance.

7. RECOMMENDATIONS

As with most studies, this study has limitations. Further research may investigate effect of other factors not captured in this study that affects performance of manufacturing firms. Cluster analysis should also be done so as to determine which firm uses low cost strategy, focus, differentiation, mixed strategy or stuck in the middle.

8. REFERENCES

- Acquaah M, Yasai-Ardekani M 2008. Does the implementation of a combination competitive strategy yield incremental performance benefits? A new perspective from a transition economy in Sub-Saharan Africa. *Journal of Business Research*, 61: 346-354.
- Allen, R.S., & Helms, M.M. (2002). Employee perceptions of the relationship between strategy, rewards and organizational performance. *Journal of Business Strategies*, 19(2) 115-139.
- Allen, R., & Helms, M. (2006). Linking Strategic Practices and Organizational Performance to Porter's Generic Strategies. *Business Process Management*, 12(4), 433-454.
- Asch, R. and Salaman, E. (2002). The effect of proactive human resource management practices on job retention, *International Business Review*, Vol.27(6), pp 676-687.
- Baines A, Langfield-Smith K 2003. Antecedents to management accounting change: A structural equation approach. *Accounting Organizations and Society*, 28: 657-698.
- Baum, J. R., Locke, E. A., & Smith, K. G. (2001). A multidimensional model of venture growth. *Academy of Management Journal*, 44(2), 292-303.
- Barney, J. B., & Hesterly, W. (2006). *Strategic management and competitive advantage: Concepts and cases*. Upper Saddle River, NJ: Pearson Prentice Hall.
- Marques, A., Lisboa, J., Zimmerer, T.W., & Yasin, M.M., 2000. The Effectiveness of strategies employed by dominant firms in the Portuguese crystal glass industry: An Empirical Investigation. *European Business Review*, 12 (1), 34-40.
- Morshett, D., Swoboda, B., & Schramm-Klein, H. (2006). Competitive Strategy in Retailing-An Investigation of Applicability of Porter Framework for Food Retailers. *Journal of Retailing and Consumer Services*, 13, 275-287.
- Porter, M. (1980). *Competitive Strategy: Techniques for analysing industry and competitors*. New York: The Free Press.

- Hellter, T. (2010). Understanding the Human Resource management: Dynamics, *Journal of People Managemet*, 34 (4), 22-34.
- Perera, S. G, & Poole M. 1997. Customer-focused manufacturing strategy and the use of operations-based non-financial performance measures: A research note. *Accounting, Organizations and Society*, 22: 557-572.
- Porter, M. (1985). *Competitive Advantage*. New York: The Free Press.
- Silva, G., Lisboa, J., & Yasin, M.M. (2000). Effectiveness of business strategies in the Portuguese culture: An empirical investigation. *Cross cultural management: An International Journal*, 7 (4), 33-40.
- Jácome, R., Lisboa, J. and Yasin, M. (2002), “Time-based differentiation – An old strategic hat or an effective strategic choice: An empirical investigation”, *European Business Review* , Vol. 14, No. 3, pp. 184-193.
- Yoo, J.W., Lemak, D.J., & Choi, Y. (2006). Principles of management and competitive strategies: using Fayol to implement Porter. *Journal of Management History*, 12(4), 352-368.
- Mosakowski, E. (1993). A resource-based perspective on the dynamic strategy-performance relationship: an empirical examination of the focus and differentiation strategies inentrepreneurial firms, *Journal of Management*, 19, 819-839.