

**EFFECT OF GENERIC STRATEGIES ON THE PERFORMANCE OF DAIRY INDUSTRIES IN KENYA. A CASE OF KENYA COOPERATIVE CREAMERIES**

**Peter Maina Chege<sup>1</sup>**

**MBA Candidate**

**School of Business**

Jomo Kenyatta University

Nairobi, Kenya

Email: [chegepeterm@gmail.com](mailto:chegepeterm@gmail.com)

**Hannah Orwa Bula<sup>2</sup>**

**Lecturer of Management**

**School of Business**

Kenyatta University

Nairobi, Kenya

Email: [bula.oh@yahoo.com](mailto:bula.oh@yahoo.com)

**ABSTRACT**

*Strategic practices in a firm determine the performance. This is especially the type and level of implementation of the adopted strategies. Kenya Cooperative Creameries (KCC) enjoyed monopoly for many years. With market liberalization, it was faced with competition. A lot of researches have been done on how strategic practices affect performance. However, there exists minimal information on how use of generic strategies affects performance of dairy industries in Kenya. This study aimed to assess the various generic strategies adopted by KCC and how they affect performance. A cross sectional analytical research design was adopted on a sample of 32 employees of KCC. A research-administered questionnaire was used for data collection. Data was analyzed using SPSS software. Descriptive statistics were used to summarize the data while Chi-square test was used to establish the relationship between the generic strategies and the performance. Regression analysis was used to model an equation to explain performance in relation to generic strategies. Results show that, lowering of cost leading to increased volume of sales, product differentiation leads to more sales due to uniqueness of the product, the focus on major milk consumers like hospitals and schools led to increased sales. This study concludes that the type of generic strategies adopted affects performance.*

**Key words:** Generic strategies, performance, dairy industry

## **1.0 Background of the Study**

Effective performance of a firm depends on the level of applications of strategies (Gamble, Arthur, Thompson, Strickland III & John, 2010). Michael Porter came up with three generic strategies which a firm can adopt to achieve a competitive advantage in the market (Dulcic, Gnjidic & Alfirevic, 2012). Performance of a firm refers to the ability to achieve the set goals and can be measured as return on investment (Grant, (2008).

Dairy industry makes a significant contribution to the Kenyan economy (Karanja, 2003). It is a sector whose performance is dependent on many factors (Nyariki & Thirtle, 2000). In Kenya, the dairy industry in the recent past has been affected by several challenges, some of which are related to strategic management (Nyariki, 2009).

Kenya Cooperative Creameries (KCC) is one of the large scale dairy sectors in Kenya. It enjoyed monopoly up to 1992 when marketing of milk was liberalized (Rosemary & Karuti, 2005). This led to entry of both large and small firms prompting competition. This among other issues led to the collapse of KCC. Due to this, KCC embarked on a comeback process.

## **1.1 Statement of the Problem**

The fast growth in the dairy industry has complicated the business operations (Karanja, 2003). The high level of competition has led to collapse of many dairy firms. The emergence of the informal sector has challenged the operations of large firms like KCC (Muriuki, Omore, Hooton, Waithaka, Ouma, Staal & Odhiambo, 2003). Researches have shown how strategic practices affect performance. However, there exists minimal information on how use of generic strategies affects performance of dairy industries in Kenya. In addition, previous studies have focused on description only while this study was analytical to assess the relationships between variables. The proposed study aimed at investigating the use of generic strategies and how it affects the performance of KCC.

## **1.2 Research Objectives**

The objectives of this study were to;

- i. Establish the effect of generic strategies on the performance of KCC
- ii. Assess the relationships between generic strategies adopted and the performance of KCC

## **1.2 Research Questions**

The study aimed to answer the following questions;

- i. How do the generic strategies adopted influence the performance of KCC
- ii. What is the relationship between generic strategies adopted and performance of KCC

## **1.4 Scope of the Study**

The study targeted the employees of KCC working within Nairobi County. The study was limited to the generic strategies adopted and how they affect the performance.

## **1.5 Significance of the Study**

The information generated by this study adds to the existing body of knowledge. It also forms a base for future research. The managers of dairy industries can use information from this study to

understand the various strategies that affect performance. This information can be used during formulation of future strategies.

## **2.1 Theoretical Review**

### **2.1 Mike porter's Three Grand Strategies**

To address the many challenges that affect the dairy industry, appropriate strategies are required. Michael Porter came up with three generic strategies (Porter, 1998). They stipulate how a firm can achieve a competitive advantage despite the existing market forces. The strategies are cost leadership, differentiation, and focus or niche where a firm can lower cost, differentiate product or focus on a particular niche.

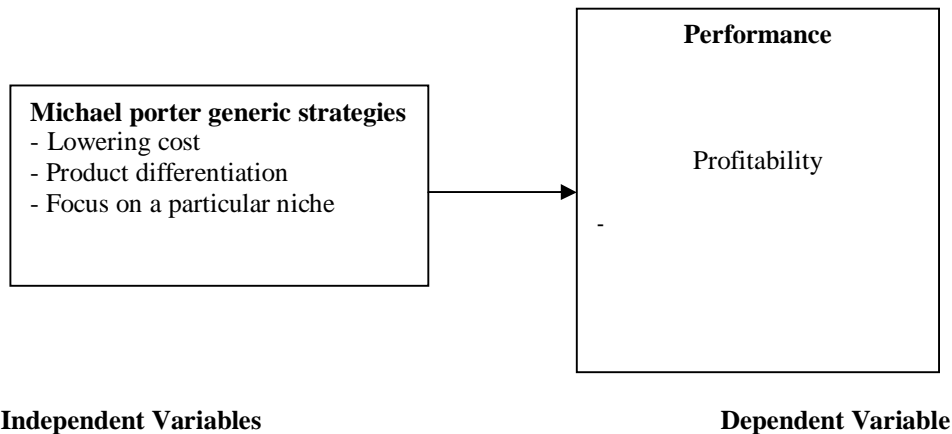
In cost leadership, a firm exploits all sources of cost advantage and aims at becoming a low cost producer in the industry. The focus is to produce a product at a relatively low cost so as to make it available to a very large customer base. This may require a large market share which can be achieved through access to raw materials, components, labour or some other important inputs. There are several factors that help towards successful implementation of the cost like process engineering skills, products design for ease of manufacture, sustainable access to inexpensive capital, close supervision of labour, tight cost control and incentives based on quantitative targets.

For differentiation strategy, firm develops unique products for customers than other firms. This leads to brand loyalty which reduces the price elasticity of demand. This is achieved through research and development.

With focus or niche strategy, the focus of a firm is to narrow its competitive scope, by selecting a group of customers from a given segments in the industry and meeting their needs. This study focused to assess the generic strategies adopted by KCC to achieve a competitive advantage.

## **2.2 Conceptual Framework**

The conceptual framework (Figure 2.1) presents the independent and dependent variables and how they are related. The performance of a firm can be measured using profitability. This performance is influenced by the nature of strategic practices adopted by a firm. By adopting mike porters strategies the firm can either lower cost, differentiate product through innovations or focus on a particular niche of customers.



**Figure 2.1: Conceptual framework**

Source: Author

### 2.3 Empirical Review

A research conducted on the effects of competitive strategies on performance of dairy firms in Kenya describes the various factors that affect the dairy industry. However, the study lacks an analytical approach. The present study focuses on analysing how adopted strategies affect performance (Waema, 2013). In addition, a study by Kinyenje (2013) on factors influencing performance of the dairy industry in Kenya assessed the factors affecting performance dairy industry. The focus was not on the generic strategies. This study focused on the generic strategies adopted by KCC and the effect on performance.

A study by Nyariki, (2009) on impacts of policy reforms on the livestock industry in Kenya noted an increased level of competition. This study is not specific on which strategies particularly influence performance. This study focused how adopted generic strategies influence performance in KCC.

Another study on corporate leadership in dairy industry describes how the informal milk sector emerged challenging the formal sector (Kamundi, 2014). One cause to this problem is poor strategies adopted by the formal firms. Adequate information is needed for use in policy formulation. However, there exists minimal information for use in strategy formulation. This study assessed the level of application of the generic strategies.

### 3.0 METHODOLOGY

#### 3.1 Research Design

A cross sectional analytical research design was adopted in this study. The focus was on a case study of KCC. This design is justified as it describes the current situation pertaining to the KCC as well as analysing the relationship between strategic practices adopted and the performance.

#### 3.2 Target population and Sampling Techniques

This study targeted the employees of KCC. The sample comprised of 32 randomly sampled respondents. The males were 62.5% while females were 37.5%.

#### 3.3 Research Instrument

A research-administered questionnaire was used for data collection. Some of the questionnaires were structured with other questions being open ended to capture more information.

#### 4.0 Data analysis and Presentation

Data was coded, cleaned and analyzed using SPSS software version 20.0. Descriptive statistics; frequency, means and percentages were used to summarize the data. Chi-square test was used to establish the relationship between strategic practices adopted and performance. Regression analysis was used to model an equation to explain performance in relation to generic strategies. Qualitative data from open ended questions were analyzed to determine the emerging themes.

#### 4.1 Effect Generic Strategies Adopted on the Performance of KCC

The study assessed the effect of generic strategies adopted on performance of KCC (Table 4.4).

**Table 4.1: Proportion of respondent's indication the various extents to which the various generic strategies adopted affected performance**

Effect generic strategies adopted on the performance of KCC	No extent	To a small extent	To a moderate extent	To a great extent	To a very great extent	Mean	Standard Deviation
Extent to which that lowering cost affected performance	0	1	2	5	24	4.36	0.75
Extent to which that use product differentiation affected performance	4	5	5	16	2	2.4	0.78
Extent to which that use of focus on a particular niche affected performance	0	5	17	6	4	3.2	0.89

Results show that lowering cost affected performance of KCC to a very great extent. This is as shown by majority (75.0%) of the respondents indicating to a scale 5 (very great extent) with a mean score of  $4.66 \pm 0.75$ . Lower prices led to increased volume of sales, but also led to reduced income of KCC. This is similar to a study Lowe, Ben and Frank Alpert (2010), showing that by lowering prices, the firm increases sales.

The use product differentiation affected performance to a great extent. This is as shown by majority (50.0%) of the respondents indicating to a scale 4 (great extent) with a mean score of  $4.23 \pm 0.78$ . The differentiated products attracted more customers. Dulcic, Gnjidic & Alfirevic (2012), explains that differentiating the products of a firm from others gives them a competitive advantage.

The use of focus on a particular niche affected performance a moderate extent. This is as shown by majority (50.0%) of the respondents indicating to a scale 3 (moderate extent) with a mean score of  $3.2 \pm 0.89$ . This was through targeting major milk consumer like hospitals and schools. This was not fully achieved due to expectation of delivery at low price. Dulcic, Gnjidic & Alfirevic (2012), highlight that focus to some form of customers who are currently not being targeted by other firms or focusing on neglected regions can lead to increased market share.

#### 4.5 Relationships between generic strategies adopted and performance of KCC

The study assessed the relationships between generic strategies adopted and performance of KCC

**Table 4.2: Relationship between performance and the various generic strategies adopted by KCC**

Performance	$\chi^2$	df	P value
Lowering price	24.5	6	0.037*
Product differentiation	28.32	6	0.046*
Focusing on a particular niche	22.47	6	0.034*

The study noted that lowering price, product differentiation and focus on a particular niche significantly ( $P < 0.05$ ) affected performance.

#### 4.6 Empirical model equation

**Table 4.3 Regression equation**

Equation	R	$R^2$	SRMSE
$0.328*CL + 0.464*PD + 241*Nf - 0.082$	0.843	0.71	0.37

$$Y = 0.328*CL + 0.464*PD + 241*Nf - 0.082$$

From the equation, lowering cost (LC), product differentiation (PD) and focusing on a particular niche had a regression ( $R^2$ ) of 0.71 which means that the three variables account for about 71% of the performance of the KCC.

#### Summary

The generic strategies adopted are, lowering of cost leading to increased volume of sales while differentiations of products lead to more sales due to uniqueness of the product. In addition, the focus on major milk consumer like hospitals and schools increased the sales.

**Conclusion**

This study concludes that the type of generic strategies adopted to achieve a competitive advantage of KCC greatly affected performance. Strategic management practices affected performance of Kenya Cooperative Creameries.

**Recommendation**

The study recommends that KCC adopt and implement fully the three strategies on cost, product differentiation and niche focus.

**Recommendation for Further Research**

This study recommends a comparative study on the effect of strategic practices on performance of several dairy firms.

**References**

- Dulcic, z., Gnjidic, V., & Alfirevic, N. (2012). From Five Competitive Forces to Five Collaborative Forces: Revised View on Industry Structure-Firm Interrelationship. *Procedia-Social and Behavioral Sciences*, 58, 1077-1084.
- Gamble, Arthur A. Thompson, Jr., A.J. Strickland III, John E. (2010). *Crafting and Executing Strategy: the Quest for Competitive Advantage: Concepts and Cases* (17th ed.). Boston: McGraw-Hill/Irwin. p. 149. ISBN 9780073530420
- Grant, R. M. (2008). A Framework Linking Intangible Resources and Capabilities to Sustainable Competitive Advantage. *Strategic Management Journal*, 14(8), 607-618.
- Kamundi, K. (2014). Corporate Leadership in Dairy Industry (Case of Kenya Dairy Board). *European Journal of Business and Management*, 6(33), 22-35.
- Karanja, A. M. (2003). The dairy Industry in Kenya: The Post-liberalization agenda. *Tegemeo Institute of Agricultural Policy and Development, Egerton University, Kenya*.
- Kinyenje, J. M. (2013). Factors Influencing Performance of The Dairy Industry In Meru Central District, Kenya: A Case of Katheri Dairy Co-operative Society (Doctoral dissertation, University of Nairobi).
- Lowe, Ben and Frank Alpert (2010), "Pricing Strategy and the Formation and Evolution of Reference Price Perceptions in New Product Categories," *Psychology and Marketing*, Vol. 27, 846-873
- Muriuki, H., Omore, A., Hooton, N., Waithaka, M., Ouma, R., Staal, S. J., & Odhiambo, P. (2003). The Policy Environment in the Kenya Dairy Sub-sector: A review. *Smallholder Dairy (Research and Development) Project, Nairobi, Kenya*.
- Nyariki, D. M. (2009). Impacts of Policy Reforms on the Livestock Industry in Kenya: The Case of the Dairy Sector. *Livestock Research for Rural Development*, 21(10), 2009.

- Nyariki D. M. and Thirtle C. (2000). Technical Innovation and Farm Productivity Growth Indryland Africa: The Effects of Structural Adjustment on Smallholders in Kenya. *Agrekon* 39(4): 597–606
- Porter, M.E. (1998). *Competitive Strategy, Techniques for Analyzing Industries and Competitors*, Revised Edition, New York free press.
- Rosemary A. and Karuti K. (2005). *The Revitalization of Kenya Cooperative Creameries: The Politics of Policy Reforms in the Dairy Sector in Kenya*, Nairobi
- Waema, M. (2013). *The Effects of Competitive Strategies on Performance of Dairy Firms in Kenya* (Doctoral dissertation, Kenyatta University).