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Firm-Level Strategy and Performance of Food and Beverage Manufacturing Companies in Kenya

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Abstract

The influence of firm-level strategy on organizational performance in manufacturing companies continues to be a dominant discussion in the recent past. The paper is determining firm-level strategy and performance connections in of food and beverage manufacturing companies in Kenya. The results are built on a survey of top executive's opinion on firm-level strategy and execution in their factories. The study used cross-sectional design of the sector that delivered data in a structured questionnaire. The hypothesis was tested using simple regression analysis. The study showed that corporate-level strategy was statistically insignificant on financial performance. However, firm-level strategy on combined organizational performance was statistically significant.

Key Words: Firm-Level Strategy and Organizational Performance

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Introduction

Food and Beverage Processing Companies operates in a dynamic environment and they have to continuously develop strategies that improve their performance and impart a competitive gain in the marketplace (Mintzberg, Ahlstrand & Lampel, 2005). Strategy is about creating alternatives (Porter, 1985). It exists as a way of ensuring a maintainable competitive edge by development of key capabilities leading to the sustainable excellent performance (Lin, Tsai & Wu, 2014). Organizational performance is directly influenced by the long-term plans that are applied inside a company appropriate to produce high profits (Bowman & Toms, 2010).

Scholars and practitioners of strategic management have defined firm-level strategy differently but in complementary ways as there is unanimity on what essentials of strategy are and Chandler's (1962) definition of strategy still remains valid. Chandler (1962) defined corporate strategy as a process of establishing futuristic goals of a firm, selection of the course of response and the assignment of capabilities necessary for attainment of set targets. Ansoff and Survillan (1993) assert that corporate-level strategy is about your destination and how you intent to reach there. This means that strategy is involved with both end and means which defines long-term plans and their attainment of organizational performance.

Wendy (1997) advocated strategic planning is a system of formulating and monitoring reliability among the company's goals, internal strength and dynamic opportunities. Thus, firm-level strategy is an elaborate long-term and detailed roadmap of a company that indicate the course of growth and the objectives to be attained and the capabilities to be utilized in the process. Several typologies have been developed to provide an ideological front of detecting strategic bundles transverse factories (Zawani, et al., 2013). The typologies developed by Miles and Snow (1978) and Porter (1980) still remain amidst of the most widely cited, tested, refined and cited frameworks.

Firm-level strategy is the mode in which a factory puts itself in the marketplace through deployment of strategy to explore a fit between a processor and its surrounding and helps it to cultivate a superior performance culture (Porter, 2008). Strategy is employed to mean a pattern, a ploy, a plan, a position or a perspective of the management in combining its activities (Mintzberg, 1990). Therefore, corporate strategy should be seen trivially as a pursuit for monopolistic rents and largely as a quest for richardian rents (returns to the capabilities). When these capabilities depreciate, become analog, or are imitated in other firms, then rents they bring tend to disappear (Grant, 1991). Implementation of a firm-level strategy involves establishment of the purpose and scale of the company activities.

Review of empirical literature on emergence of sustainable performance coincides in showing that firms in both commercial and non-commercial entities are enthusiastically accepting the art of long-term planning in anticipation that it translates to improved productivity and overall performance (Awino, 2011). The nature of industry it operates in, its surrounding, market position and competition into account (Hamel &

Prahalad, 1990). It follows that, devising and execution of a corporate-level strategy aids in granting short and forecasted performance direction.

According to Glaister et al (2006), firms have an option to choose strategy involving product, process, market or organization (simple strategies). Recent evidence reveals that a good percentage of innovative ventures chose a mixture of several forms of strategies (complex strategies) concurrently (Karlsson & Tavassoli, 2015). Therefore, a corporate strategy is an intimation of ways wherein the company relates with the surrounding and retain the input-output cycle to bring forth a match with its environment. The study investigated firm-level strategy construct through levels of strategic planning, diversification, outsourcing, strategic alliance, internal restructuring, market growth and product development.

Organizational performance is the capacity of the company to perform or ability to achieve desired results (Longdon, 2000). This definition is in agreement with Porter (1991) who opines that organizational performance continues to be an important construct in firm-level strategy studies for decades and the crucial view has been on the reason form company's difference in performance. According to Griffins (2006), organizational performance is the measure of company's power to procure and exploit its scarce means and assets as expeditiously as possible in chasing of set operational objectives.

The construct is widely researched in the specialty of strategic management. But there is lack of concession between scholars on acceptable definition of firm performance as various scholars define the concept differently. It could be described as the notch of accomplishing a task that constitute a specific job and is measured according to effectiveness and efficiency with which individual firm's run its affairs (Joubert, 2002). Thus it is paramount to investigate organizational performance as an indicator of output in connection to Balanced Scorecard (BSC) dimensions. The measure is an improvement to the traditional indicators that used growth (turnover, number of staff, market share), profitability and survival (Storey, 1994; Harrington, 2001). Though, financial dimensions of return on investment (ROI), return on assets (ROA), gross sales and profitability ratios among others are the most commonly utilized indicators of financial success of a venture.

The reliance on financial measures as the only evaluator of company achievement can be misleading as it does not show organizational performance on account of internal business systems, customer perspective and employee dynamics (Kaplan & Norton, 1992; Freeman, 2004). This has steered to numerous comprehensive measurement frameworks which include system performance measurement models; workflow based measurement models, statistical control methods and SBSC to be developed and employed to judge overall performance (Buck, Filatotchev, Wright & Zhukov, 1999). The credibility criticism of BSC as a measurement tool of performance and recommendations for its enhancement due to changing demands of stakeholders led to emergence of Triple- Bottom-Line (TBL) (Elkington, 1997). Though the researchers still found BSC measures based on monetary and non-financial indicators still ideal in the study and applied it in

establishing the lineage of the research variables of firm-level strategy and organizational performance.

FBMCs in Kenya are categorized beneath the manufacturing industry. The segment contributes about 10% of Gross Domestic Product (GDP) (KIPPRA, 2013). Performance improvement of this sector is of great interest to all stakeholders. The sector is projected to direct the socio-economic progression of the nation (KIPPRA, 2013). FBMC sector in Kenya is a key prolific ventures of the economy selected in Vision 2030 economic blueprint to spur growth and prosperity because of its immense potential for poverty reduction, jobs establishment and wealth creation (Kenya-Vision 2030, 2007). Firms in this sector has embraced development of strategies for performance improvement (Ansoff & MacDonnell, 1990).

Literature Review

The construct of firm-level strategy which involves a process of setting long-term goals was anchored on Industrial Organization Economics Theory (IOE). The theory is based on Structure-Conduct-Performance (S-C-P) paradigm of Mason (1939) and Bain (1956) whose strategic management equivalent for the study is Firm-Level Strategy-Conduct-Performance (FLS-C-P). The paradigm of S-C-P explains organizational performance as a function of organogram and the conduct of its employees. To operate optimally, leverage on their strength and maximize on profit, the basic tenant for the model is that the cost-effective performance for a firm is a product of the conduct of the buyers and vendors in the S-C-P paradigm, which in turn is a function of the industry's structure (Mason, 1939; Bain, 1956). Economic performance is evaluated by how efficient the capabilities employed yield the peak value. The conduct denotes the operations of sellers and shoppers; plant installed and utilization capacity; research and development; marketing and costing policies; and inter-factory competition or alliances.

Industry structure (the determinant of conduct) includes variables such as the size and number of the merchandise and buyers; technology; magnitude of vertical integration; grade of product differentiation and the range of challenges to new entrants (Scherer, 1984). The correlation of industry and structure paradigm that originated from the microeconomic framework of perfect competition (Bowman & Toms, 2010). Since in a fixed model, competition is perceived according to its equilibrium condition. Entry roadblocks in this model are necessary to the connection between industry edifice and organizational performance. Entry barriers are the benefits of established merchandise in an industry over new entrants, it is measured permitting to the advance to which developed vendors can tirelessly increase their worth above market rates without attracting competition from new firms (Bain, 1956). The entry roadblocks are paramount in this model because they eliminate abnormal profits and structure to determine potential organizational performance.

The IOE theory indicates that performance is a factor of industry influence in the market and how profitability is determined by market players. The theory is about the

economic aspect of companies and factories considering to investigate their conduct and draw normative implications. IOE theory lays assertion on the operational aspects, tries to comprehend and explain the working systems, thereby predicting the axis for firm changes. The interaction is mirrored in the S-C-P paradigm. According to the theory, a causal link exists between the organogram of a market that a factory operates, the conduct which equates to study preposition of firm-level strategy and organizational performance.

Taking recognizance of Ansoff and MacDonnell (1990) who argued that strategic choices adopted by companies are influenced by the environment in which the firm operates rather than industry; empirical research in strategic management have focused more on firm's internal resources as the primary source of competitiveness and good performance (Bowman & Toms, 2010). The theory of (IOE) predicts effects of economic changes through laying focus on the operational aspects and highlights the working systems. The theory guided the conceptualization of firm-level strategy as it comprises making informed economical and long-term decisions.

The ambition of the study was to explore the bearing of firm-level strategy on organizational performance. Firms need to perform a clear analysis of their venture objectives and understand how it will fit in the bazaar in regard to resources, clientele and competitors (Hall, 2007; Cole, 2008). Prudential execution of plans is a method through which strategies are positioned into operational planning and make-activities happen that promote core organizational targets (Wheelen & Hunger, 2008; Thompson, Strickland & Gamble, 2008). Therefore, eizffective strategy implementation assists firms in business standing for superior performance and gaining a competitive edge.

Business positioning can be through variety-based, consistent low-cost, need-based, accessibility or a combination to satisfy the needs customers (Lowitt & Grimsley, 2009). A robust strategy ought to be capable of dealing with industry pressures of potential competitors, buyers, suppliers and product/service substitute as a force shift usually require a commercial entity to re-assess the market place (Porter, 2008). Consequently, superior integration through collaboration and alliances between firms improves the innovativeness and could have an affirmative effects on corporate performance (Chrowman, Pries, & Sara, 2017). Hence, strategic planning is paramount to the expansion of a factory as it has a compact connection to its performance (Arasa & K'obonyo, 2012; Taiwo & Idunnu, 2010).

Research proponents of environmental focused paradigms of strategy whose models of strategic analysis have an industry environment framework, argues that firm-level strategy is the mechanism of firm market sitting in accordance to the five forces analysis. They further recommend that a variation in one of the forces usually calls for a business venture to re-analyse the market place as a result of the sweeping changes in the industry information (Mintzberg et al., 2005; Porter, 2008; Nguyen et al., 2013). A well-conceived strategy allows a firm to confront competitive forces of potential

competitors, buyers and supplier's behavior and threats from substitute product/services. The focus of product strategy is to fashion uniqueness through creativity and innovation such that the firm products are unique from those accessible by its competitors (Dean, 1998).

Business process outsourcing as a corporate strategy is chosen when a firm endeavours to reduce operational costs and improve customer satisfaction on timely delivery of services. While the logic for firms to launch a diversification strategy is to lower the total risk of dependence on a single or a few products/services and could be at business unit or corporate level (Gould & Alexander, 1995). The key insight to mixed strategy equilibrium is that every pure firm-level strategy that is undertaken as a portion of mixed strategy equilibrium, ordinarily has similar expected value. This is because various configuration of strategy and resources will lead to different outcomes of performance (Fiss, 2008; Aosa, Bagire, & Awino, 2012). It is argued that having game theory in your firm options can differentiate between failure and success (Nalebuff, 2012).

Strategic alliance among businesses has developed to a common concept in intercompany management. However, expounding the accurate fauna and echelons of strategic alliance and performance link in FBMC still remains a academic and empirical test for governance researchers. For instance, Robson, Katsikaes and Bello (2008) established that interfirm trust becomes stronger when alliances size declines. Lin, Yang and Demirkan (2007) argued that strategic coalition establishment that focuses on firm features, its industry limitations or the dynamic networks in which the firms is entrenched enhances organizational performance.

Internal rationalization has allowed concerns to internationally respond more quickly and successfully to novel prospects and unexpected pressures, thereby re-establishing their competitive edge (Miles & Snow, 1978). The spot is established through organization reorganizing its firm transformation and safeguarding its perfect position to compete whereas building best practices and systems that propel it over and above its challengers. This ultimately brands the entity to acclimatize faster and prepare it a rapid contest with the competitors (Gibson, 2010). The scholar, contends that firms reorganize to support corporate strategy or take leverage of a trade opening.

The ever-changing firm-level strategy developed by company leadership reflects its mission and major values in its vision and underlying firm strategies for achieving set goals (Hamel & Prahalad, 1990; Taiwo & Idunnu, 2010). Therefore, firm-level strategy provides clear direction for all business units engaged in a collaborated effort for the total performance improvement and meeting shareholders anticipations while giving value to their consumers and workforce. The factors that underlie long-term competitive edge and performance include adoption of dual competitive advantage strategy, creation of a strategic suit amid the company edifices, processes and its strategy (Waweru, 2008). The studies contributed to an understanding of the existing linkages among firm-level strategy and factory performance. However, the studies did not clarify causes

of firms adopting similar strategies but still registering differences in performance.

Empirical studies on organizational performance reports that firm-level strategy informs long-term management decisions for performance improvement and log-term competitive edge (Ansoff, & Survillan, 1993; Porter, 2008). However, studies conducted to establish this relationship in different contexts is still scanty. Consequently, the objective of this paper was to explore the influence of firm-level strategy and performance of FBMC in Kenya.

H_{01}. *There is a significant relationship between firm-level strategy and performance of food and beverage manufacturing companies in Kenya.*

Methods

To determine the relationship among the variables, we analysed data from 178 large scale FBMC listed by Kenya Association of Manufacturers (KAM) in December 2016. The crucial respondents were Chief Executive Officers/ Managing Directors of the sampled processors. FBMC in Kenya are grouped under the processing industry which is an important sector of the economy causative of approximately 10% of Gross Domestic Product (GDP) (KIPPRA, 2014). Manufacturing sector's workforce census of roughly 300,000 people which accounts for 13% of the Kenya general employment. The industry's share to the GDP has been on deterioration tendency from 13.9% in 2008; to 11% in 2010; to 9.6% in 2011 and 9.2 % in 2012. The sectors proportion to the wage employment has also gradually declined from 13.9% in 2008 to 12.8 % in 2012 (KIPPRA, 2014). The degeneration in progression of this subdivision is accredited to a blend of constructs that includes high costs of food ingredients, salaries, increased erection expenses and tightened bank loan requirements. The data was analysed using frequency tests, descriptive statistics and regression analysis.

Results

To test hypothesis H_1, a one-sided approach was adopted using simple regression analysis. First, the firm- level strategy dimensions were regressed on every measure of organizational performance. Second, combined indices for firm-level strategy and financial performance was developed, then regressed on the index of firm performance. This formed the basis for which the decision to accept or reject the hypothesis was made. Results for the effect of firm-level strategy dimensions on individual extent of organizational success are presented in Table 1.

Table 1: Coefficient Results of Financial Performance

	Unstandardized Coefficients		Standardized Beta (β_0)				
Model	**B**	**Std Error**		**t**	**Sig.**	**Tolerance**	**V.I.F.**
1 (Constant)	.02	.02		.15	.25		
Block	-.02	.01	.09	-1.18	.24	.38	2.66
Strategic Planning	-.02	.01	-.10	-1.21	.29	.38	2.67
Diversification	-.03	.02	-.10	-1.84	.07	.87	1.16
Business Process Outsourcing	.04	.02	.14	2.48	.01	.80	1.25
Strategic Alliances	-.01	.01	-.06	-.82	.41	.37	2.69
2 (Constant)	-.02	.02		.79	.43		
	-.01	.01	-.08	-.99	.24	.38	2.66
Internal Restructuring	-.01	.02	-.03	-.52	.60	.80	1.25
Product Development	-.03	.02	-.09	-1.20	.23	.46	2.19
Market Development	.02	.00	.31	4.76	.00	.53	1.88

a) Dependent variable: Financial Performance.

The overall regression equation for this model is: $Y= \beta o_1+\beta_1 X_1 +\varepsilon_1$; whereby Y = -.02-.02SP- .03D+.04BPO-.01 IR-.03PD+.02MD. Table 1 shows the regression results: beta coefficients standard and unstandardized errors, their t-ratios, significant or insignificant levels, and tolerance and variance inflation factor when financial performance was adopted as a performance measure. Based on the results ($t = 4.76$; $p<0.00$) for the variable of firm-level strategy, the hypothesis that beta coefficient was equal to 0 (zero) was accepted and the research hypothesis that there was a significant relationship amongst firm-level strategy and performance was sustained.

Out of the six indicators of firm-level strategy and financial performance, only business process outsourcing and market development had positive beta values of 0.04 and 0.02 respectively. The beta coefficient for the relationship between financial performance and the independent variable of firm-level strategy was 20% implying that there is an essential direct relationship. Results of the independent influence of firm-level strategy on financial performance are presented on Table 2.

Table 2: Regression Coefficient of Firm-Level Strategy on Financial Performance

	R	R-squared	Adjusted R-Squared	R-squared change	F Change	df 1	Df2	Sig. F Change	Durbin Watson
1	.28[b]	.08	.07	.051	22.62	1	409	.00	1.54

a) Predictors: (Constant) Firm-Level Strategy

b) Dependent variable: Organizational Performance

Based on model 1 summary where the predictors of firm-level strategy were added, (F (1,409) = 22.62), the findings show that the variable, strategic planning, diversification, business process outsourcing, internal restructuring, market development and product development, contributed to the overall variation in organizational performance.

The F-statistic of 22.62 with a probability ratio of .00 indicated that the general model was significant and that all the independent variables were jointly substantial in explaining the variation in the dependent variable (Financial Performance). Therefore the hypothesis that change in R^2 was equal to 0 was accepted. The research hypothesis that there is a significant relationship between firm-level strategy and performance of FBMCs in Kenya was supported. The increase in R^2 in the analysis was 5%. A summary of the combined effect of hypothesis one is presented Table 3.

Table 3: Summary of Combined effect of H_1

Model	N	R	R^2	F	Sig.
Financial Performance = f(FLS)	125	.42[a]	.23	.146	0.55
Internal Bus. Processes = f(FLS)	125	.36[a]	.13	.042	0.01
Customer Focus = f (FLS)	125	.68[a]	.46	.404	0.23
Learning and Development = f(FLS)	125	.56[a]	.31	.207	0.00
Predictor- Firm-Level Strategy (FLS)					

The results in Table 3 illustrate that firm-level strategy variations to financial performance with (P-value> 0.05) was not significant. Internal business process contributes to 13%, customer focus to 46% and learning and development contribution to organizational performance was 23%. The P-values for internal business process

and learning and development are (P<0.05) which means that they have an influenced to variations in firm-level strategy. Customer focus and learning and growth with P values of 0.23 and 0.55 which is above (P<0.05) shows that they are not significant to unaffected by changes in firm-level strategy.

The results indicate that firm-level strategy is the main driving force of performance in food and beverage manufacturing companies in Kenya. The results reveals that (R^2 = .72) implying that a variation in firm-level strategy results in 72 % changes in organizational performance. This invariably means that higher numeric values for firm-level strategy are correlated to organizational performance (performance). Therefore, the hypothesis that there is a significant relationship between firm-level strategy and performance of FBMCs in Kenya was upheld.

Conclusion

The focal objective of the study was to establish the effect of firm-level strategy on performance of food and beverage manufacturing companies in Kenta. The study determined that firm-level strategy was irrelevant on financial performance measures of ROI and ROA. However, in overall firm-level strategy on organizational performance was statistically significant when other non-financial indicators such as customer focus, business processes and learning and growth were fused in the model. The results on impact of firm-level strategy on performance of FBMC were positive and statistically significant. The findings of the study showed that strategy was present to a great extent within food and beverage manufacturing companies. The study findings partially agrees with Awino, Ogaga and Machuki (2017) who argued that corporate strategy relates to performance meaningfully. However this study contradicted Machuki and K'obonyo (2011) who established negative relationships among the concepts. In their study, they established that corporate strategy influence on firm performance was not statistically significant.

The results are partially consistent with the IOE theory which holds that firm-level strategy influence organizational performance through decision making (Mason, 1939; Bain, 1956).The results supports previous studies that tested the variables in a manufacturing firms (Herold, 2001; Eastlack & McDonald, 2002; Arasa & K'obonyo, 2012) that indicated that firm-level strategy results in superior organizational performance, when tested in terms generally acceptable of (ROI, ROA, business processes, customer perspective and learning and development). However, the result differs from arguments of (Armstrong, 1999; Akinyele, 2007; Hahn & Powers, 2010) who have contradicted notion of firm-level strategy and organizational performance relationship. This may be linked to the conceptual, methodological and contextual differences from the study.

In a major departure from majority of previous studies, the study established that strategic alliance characteristics was not statistically significant in explaining variations in performance (p-value>0.05). The findings are not surprising taking into consideration the non-significant results of strategic alliances found by Muthoka and Oduor (2014). In contrast, the results run contrary to Chrowman, Pries, and Sara (2017) who maintain that superior

integration and alliances between firms can have positive effects on inventions and collaborations with other firms. The study contradicts Robson et al. (2008) who established that corporate performance is driven and influenced by confidence in strategic alliances through distributive fairness and partner similarities. Nonetheless, this preposition may be true based on the context of the study.

Incidentally, the results were in agreement with proposals of Payne and Frow (2005) that for special customer and shareholders value, firm strategy is vital. The study further supported the prepositions of Kaplan and Norton (1992) that client worth intention should be the root for corporate-level strategy. The results further supports the Balanced Scorecard model for assessing performance. It complements past financial performance with methods that stimulate success. Hubbard, (2009) posited that organizations should be active to the variations in the external environment and performance measurement. The results advocates for measuring performance beyond economic profits to include natural surroundings and corporate social obligations. This was affirmed by lack of statistical significance of firm-level strategy and financial performance measures (p value>0.05).

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