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INFLUENCE OF STRATEGY TYPOLOGY ON PERFORMANCE OF FREIGHT FORWARDING COMPANIES IN KENYA

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Abstract:

Strategic management scholars have argued that firms in the same industry have varying performance outcome attributed to several aspects such as those registering exemplary performance embracing strategy typologies in the face of intense market demands and rapidly changing competition to survive and maintain superior performance. The aim of this study was to establish the influence of strategy typology on performance of freight forwarding companies in Kenya. The research was based on the industrial organizational economic theory. Positivism research philosophy and descriptive cross-sectional survey were used. Stratified random sampling was applied to derive a study sample of 120 freight forwarding firms. Primary data was collected using semi-structured questionnaires. Data was analyzed using regression analysis. The results of the study showed that there was a significant influence of strategy typology on organizational performance. The finding supported the arguments that industrial organization economic theory assumed that an organization's performance and ultimate survival depend on its ability to adapt to industry forces, even though the organization has limited control. The study is set to enable management to make informed decisions while planning for their medium and long-term strategies. Strategies that are appropriately implemented enable the organization to compete and record improved performance. The researcher recommended replication of the study in different sectors and countries to enhance understanding of the relationship between strategy typology and organizational performance.

Key words: Strategy Typology, Performance, Freight Forwarding Companies, Kenya

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1. Introduction

Strategic management is an organizational practice that examines the relationships between strategic aims, processes and content. Several researchers have observed that strategic management uses a contingency framework, which avers that organizations that are successful are highly adaptive to their environments in a bid to gain superior performance (Walker, Boyne, Meier, O'Toole Jr & Richard, 2010).

The concept of strategy is ancient and has different meanings and definitions from various authors. However, there is no universally accepted definition of strategy. Drucker (1954) defined strategy as the company's basic approach towards achieving its overall objectives. Ansoff (1965) observed that strategy provides a broad concept of the company's business, set forth specific guidelines by which the firm can conduct its search and subject the company's selection to the most attractive opportunity. Porter (1980) highlighted the generic strategies comprising of focus strategies, cost strategies and differentiation strategies to avert the result of low performance. On the contrary, Miles & Snow (1978) developed dissimilar forms of strategy types as a way of connecting an organization to its environment. Johnson, Scholes & Whittington (2008) characterized strategy as the long haul course and extent of an association which accomplishes advantage in a changing domain through its setup of assets and capabilities with the point of satisfying stakeholder desires.

The nexus between strategy and performance has been studied empirically by various scholars. As a result, the development and application of various strategy typologies have emerged in strategic management (Anwar et al., 2016). Numerous studies have been undertaken by scholars who have paid attention to the interaction between strategy and performance. As a result, the development and application of various strategy typologies have emerged in strategic management (Anwar et al., 2016). Such strategy typologies include, Miles & Snow's (1978) strategic categories of reactors, prospectors, defenders and analyzers; Porter's (1980) generic strategies of cost leadership, differentiation and focus; Miller's (1990) high performance strategies; Rao (2015) observed that strategies that organization adapt are arranged in four distinct levels, namely; corporate, business, functional and product level. Macmillan & Tampoe (2000) discussed business strategies of product development, market penetration, diversification and market development among others.

The leading strategy typologies are Miles & Snow's (1978) strategic categories and Porter's (1980) generic strategies. This study adopts the Miles and Snow (1978) strategy typology which has empirically applied strategic classification that incorporates integrated contingency concept and consistency in the application (Schwarz, Sharma & Freeman, 2013; Peng, Tan & Tong, 2004; Murray, O'Driscoll & Torres, 2002). Miles & Snow (2003) observed that business level strategies are classified as, prospectors, defenders, analyzers and reactors. It is observed that these strategic categories may run concurrently in industries. The feasible strategies of prospectors, analysers and defenders when properly implemented have the potential of being effective in the market. The reactor strategy is perceived to be reactive and a non-viable (Walker, 2013). Vladimir (2014) noted that reactor strategy types outline how companies align with their environment and help provide answers to the three main adaptive cycle challenges, that is, entrepreneurial, administration and the engineering. The entrepreneurial, that explain the behaviour exhibited by an organization in the market place; the administration challenge which considers how the organization coordinates and implements its strategies, and the engineering or technical that focuses on the technology and processes used for production and services. The prospector companies are pioneers in the market and control large market share (Isoherranen & Kess, 2014). Prospectors more often pursue opportunities related to market and products besides focusing on environmental changes (Vladimir, 2014). Prospectors repeatedly pioneer the growth of new products through new ideas that bring about changes making it difficult for competition to predict market trends (Allen & Helms, 2006). Prospector companies surpass their competitors by taking charge of markets with their innovative new products as they embrace modern technologies (Cunningham, 2002).

The defenders are companies that have steady markets for their products and services and compete mainly based on price, high quality products and customer service. Defender companies encounter the entrepreneurial challenge of maintaining stability in their market, thus perform well in non-volatile environments (Blackmore & Nesbitt, 2013). The companies uphold internal focus by concentrating on an identified region within a prospective market with diminishing ability to align to changes in the environment. The analyzers are companies that have the attributes of the prospector and defender types. They pursue a harmony between stable and changing domains (Boyne & Walker, 2004). Analyzers face entrepreneurial challenge and are limited in terms of increasing and maintaining the market share for their product offerings (Miles et al.,1978). Once the market's reaction is examined, analyzers pursue the opportunity having identified the critical success factors. Thus, analyzers pursue new market opportunities like prospectors, and they generate most of their revenue from stable portfolio of products like defenders (Narano – Gil, 2009).

The concept of strategy typology was based on the Industrial Organization Economic Theory. Industrial Organization Economic Theory was originated by Bains, (1968) and Mason, (1939). Industrial Organization Economic Theory postulates that the strategic behaviour of firms and their interactions determine the structure of markets that entails how a market is functioning (Grimm, 2008). Industrial Organization Economic Theory stresses that firms should adapt to influences in their industry to excel in performance and find itself a favourable position in an industry, defend itself against competitive forces, by applying strategic actions such as dissuading entry or raising barriers to entrance, react to unforeseen environmental turbulences and prospect the opportunities for growth.

The study focused on freight forwarding companies in Kenya because these companies handle imports and exports cargo which contributes to the national income. Hence, their performance impacts on the achievement of vision 2030 (KRA, 2010). The performance of these companies is contingent on the strategies they adapt. Some of the companies are said to excel in performance while others have exhibited low company performance. In year 2017, for example, freight forwarding companies contributed 7.1% of the GDP. In the last two decades' freight forwarding companies have been facing challenges mainly due to heavy competition, poor infrastructure and slow reforms in the customs regulations (KIFWA, 2000). While some of these companies have performed well, others have exhibited low organizational performance (Ojala & Dilay, 2015). This could be because some companies have a better understanding of the critical determinants of performance. On the flip side other companies could be lacking knowledge to the fact that competition is the basis of success or failure of their businesses. Thus, there is need to re-align the organizations to survive and prosper in a competitive market (World Bank, 2005).

2. Literature Review

Various scholars have studied the relationship between strategy typology and performance. Garrigos, Marques & Narangajavana (2005) applied the Miles & Snow (1978) typology in the Spanish hospitality industry and demonstrated differences across selected performance measures such as total performance, profitability and growth. They noted that reactors consistently underperformed compared to other businesses. Vladmir (2014) studied medium and large food manufacturing companies in Croatia and confirmed the presence of all four types of strategic orientation. Parnell, Long & Lester (2015) found out that prospectors performed negatively in China and analyzers performed negatively in the USA.

In Turkey, Zamani, Parnell, Labbaf & O'Regan (2013) noted that defenders performed negatively in terms of growth and overall performance. These studies noted that the performance of viable strategies varies with the variation in performance measures, the organizational environment and industry. Isoherranen (2011) observed that reactors strategy is considered a failure. This is because it is a response to the threats and opportunities inherent in the business environment and leads to dismal performance. Boyne & Walker (2004) indicated that reacting strategy might be of benefit in the public sector based on the circumstances of the stakeholders. Lei and Slocum (2005) posit that it is imperative for an organization to choose a strategy appropriately to achieve a sustained competitive advantage and hence superior performance.

3. RESEARCH METHODOLOGY

A cross-sectional descriptive survey was used in conducting the study. Population of the study was the freight forwarding companies in Kenya. The Customs departments of the Kenya Revenue Authority states that as at June 2017, there were 824 licensed freight forwarding companies in Kenya (KRA, 2017). The study adopted stratified random sampling technique to ensure that each stratum is mutually exclusive and collectively exhaustive. The five functional categories, namely, freight, customs clearance brokerage, transportation and warehousing, freight of perishables and freight and contract logistics of freight forwarding companies in Kenya, as categorized by customs department of Kenya Revenue Authority (KRA, 2017), were treated as strata.

The sample size is calculated using the formula suggested by Sekaran (2006) and Mugenda & Mugenda (2003). As per the formula, the appropriate sample size was determined as follows; $n = (z^2\ pq)\ /e^2$. Where: n is the minimum sample size required; z is the standard normal deviation, that is, 1.96 for 0.5 margin of error; p is the proportion in the target population estimated to bear the characteristics, recommended to be 50% if there is no estimate available of the proportion in the target population assumed to have the characteristic of interest; q is the proportion not having the characteristic (1-p); e is the margin of error required (set at 5% in the current proposal).

$$n = \frac{1.96^2 \times 0.1\ (1 - 0.1)}{(0.05)^2} = 138$$

Saunders et al. (2007) recommended that where the population is less than 10,000 as it is the case in this study, then minimum sample size can be used without affecting the accuracy of the study. Thus, for population less than 10,000 the following adjustment was made as follows; nf = n/1+ (n/N) where, nf = the final sample size, when population is less than 10,000; n = the sample size of population of 10,000 or more; N = the size of the total population from which the sample is drawn. nf = 138/(1+138/824) = 118. The sample of 118 organizations is rounded off to 120 organizations and will be sampled proportionately as per sample size of companies in each of the five categories of freight forwarding organizations in Kenya. The study collected primary data using a questionnaire that was circulated to the respondents. The target respondent were the senior managers involved in strategic planning and execution at the corporate level, for example, chief executive officer or strategy manager. Regression analysis was used to evaluate the relationship between strategy typology and organizational performance.

4. Research Findings And Discussions

The hypothesis formulated was that;

H_1: There is no significant influence of strategy typology on organization performance of freight forwarding companies in Kenya.

This was tested by calculating the indices for each of the strategy typology dimensions and performance dimensions and performed a regression analysis**.** The results are presented in Table 1.

Table 1: Effect of Strategy Typology on Firm Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	.234[a]	.055	.044	.72396	.055	4.985	1	86	.028

a. Predictors: (Constant), Strategy Typology

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.613	1	2.613	4.985	.028[b]
	Residual	45.075	86	.524		
	Total	47.688	87			

a. Dependent Variable: Performance

b. Predictors: (Constant), Strategy Typology

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.165	.478		4.527	.000
	Strategy Typology	.303	.136	.234	2.233	.028

a. Dependent Variable: Performance

Source: Field data (2018)

The effects of strategy typology on firm performance are shown in Table 1. The study found a relatively weak relationship between strategy typology and firm performance (R= .234). Coefficient of determination (R^2 =.055) indicates that strategy typology explains 5.5 % of variation in firm performance. However, although weak, the critical values of F for the 0.05 significance level=3.11 which is less than calculated F-value of 4.985 and $p<0.05$. Thus, since the test statistic is much larger than the critical value, the study rejects the null hypothesis. The study concluded that the test statistic was significant at that level implying the relationship is significant. The significant relationship was further manifested by the t-value in the coefficient table (β=.303, t=2.233, $p<0.05$). This therefore depicts that strategy typology is key in determining performance of freight forwarding companies in Kenya. Thus, the hypothesis that there is no significant influence of strategy typology on organization performance of freight forwarding companies in Kenya was not supported and the alternative view supported.

The findings are supported by several empirical arguments. For instance, Garrigos et al., (2005) applied the Miles & Snow (1978) typology in the Spanish hospitality industry and demonstrated differences across selected performance measures such as total performance, profitability and growth. Organizations should search for new service delivery approaches to exceed customer expectation, and organizations should innovate continuously, seek growth opportunities and take calculated risks. In summary, organizations use strategy to deal with changing environments. This is because change brings different combinations of circumstances to the organizations. Thus, the substance of strategy remains unstructured, unprogrammed, nonroutine and nonrepetitive. Further results concur with Miles et al., (1978) research that strategy classification is a summary of the ways in which organizations co-align with their environment. Consequently, effective organizations resolve the entrepreneurial, engineering and administrative problems and achieve successful alignment of strategy, structure, process and environment.

5. Conclusion

The study found that strategy typology had a positive effect on firm performance of freight forwarding companies in Kenya. First, this finding supports the arguments that industrial organization economic theory assumes that an organization's performance and ultimate survival depend on its ability to adapt to industry forces through developing strategies that improves performance. Freight forwarding companies in Kenya are vital contributors towards the economic development of the country. Miles & Snow (1978) observed that business level strategies were classified into one of the four strategic configurations, namely, prospectors, defenders, analyzers. The three are viewed as viable strategies that yield superior performance. Further, the study found out that reactors recorded superior performance in public organization.

The study noted that the freight forwarding sector in Kenya is an integral sector that is geared towards enabling the national economic development, especially the achievement of the country's vision 2030. The performance of the freight forwarding company is of utmost importance requiring strategy typologies which according to the study are significant in influencing firm's performance. The study further concludes that strategy typologies creates a synergy to act as a pivot of decision making units as far as the firms competitive is concerned especially in the freight forwarding companies in Kenya.

6. Recommendations

The management of freight forwarding companies in Kenya should make use the finding of this study to make informed decisions while formulating and implementing their medium and long term strategies. that appropriately suited the organization to enable the organization to compete and record improved performance. Freight forwarding companies should further focus more on adapting and implementing appropriate strategy typologies that enable the organizations to co-align with their environment to achieve the desired outcome.

Senior management of the freight forwarding companies should develop competitive strategies to compete in their respective segments. This is because strategy links the organization to the environment, and in turn impacts on the performance of the organization. Also, the choice of strategies proposed by the managers should evaluate the diverse factors both internal like resources especially technology based processes and external factors like the competitive environment in order to blend those strategies that foster performance.

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