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*EFFECT OF COST LEADERSHIP STRATEGY ON
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NAIROBI CITY COUNTY, KENYA.*

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EFFECT OF COST LEADERSHIP STRATEGY ON PERFORMANCE BY KENYA SELECTED CAR RENTAL BUSINESS IN NAIROBI CITY COUNTY,

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Abstract

Purpose of this study was to determine the effect of cost leadership strategy on performance of selected car rental business in Nairobi City County. This study was a cross-sectional descriptive study design where purposive sampling technique was used to select fifteen (15) car rental business in Nairobi City County. Stratified and simple random sampling technique was employed in recruiting three categories of respondents. The three category of staff included, top level, middle level and bottom level management. Structured questionnaires were used to collect primary data which was then analyzed. Both descriptive and inferential statistics was used. The findings of the study revealed that cost leadership strategy was not statistically significant in affecting the performance of Car hire firms in Nairobi City County. Many of the car hire business in Nairobi City County charged same as their competitor. Cost leadership strategy affected performance of car rental business in Nairobi City to a very large extend. This study recommends the need to evaluate other competitive strategies on performance of car rental business in Nairobi City. This study findings implies that sustaining a cost leadership strategy an entrepreneur should become aware of the competitors offer and consider developing customer intimacy and focus on a narrow target market.

Key words: Cost leadership strategy, performance and car rental business

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Introduction

Performance remains a fact of life which can be felt in work, play or any activity where monetary attention can be deduced if necessary (Paul., Jim and Harinder, 2007). To understand the findings of measured performance, estimations, selection criteria and the procedures used during quantification must be well explained (Ittner and Larcker, 2003). In qualitative analysis of performance, employing the use of good, fair and poor are ambiguous to use in an expressive way (Beamon, 1999). It is vital to evaluate performance procedures because it gives a bearing on where a firm stands compared to competitor (Keung, 2000). Mounting concerns have risen in recent times that measuring of performance may not be sufficient (Bourne, Franco and Wilkes, 2003). Performance entails programmed parameters where measurement is the capacity to monitor actions and movement in a useful way (Morgan, 2004). In business context, performance entails executing an action subsequently determining it on the grounds of the action as carried out (Paul, 2007).

Recently, it has been observed that financial environment changes quickly hence the need for flexibility and adaptableness to fluctuations for a business to achieve competitiveness (Barney, Wright, and Ketchen 2001). Competitive strategy is a guide of decision in a company that give direction and disclose its intensions, purpose or ambitions and plans for achieving set goals (Githae, 2004). Competitive strategies necessitate that for a firm to gain competitiveness it needs a distinctive style of competing. It is necessary for a business to have a maintainable competitive advantage to compete but it more important is whether the competitive advantage is sustainable (Kimando, Njogu, and Sakwa, 2012). Thompson and Strickland (2010) on their part define competitive strategies as

consisting of the tactics and methods employed by a business to entice buyers, endure market pressure and advance its market standings. Lester (2009) on his part argues that competitive strategies enable a business outline its position presently, tomorrow, and determines the market to compete in. Johnson and Devonish (2009) observed that when competitive strategies are prearranged and implemented by a business organization these firms tend to better performance than their counter who fails to adopt them.

To achieve long standing strategy business should pursue a sustainable tactic that will give it competitive advantage founded on generic strategies (Grant, 2002). Management approaches that results in successful competition is a company's competitive strategy. The endeavors by a firm to satisfy customers, its aggressiveness and defensive maneuvers to counter rivals in the same industry fortifies its market position enabling it secure a competitive advantage (Bintiomari, 2010).

Parameters of performance indicators include revenue growth, customer satisfaction, market share growth, profitability and productivity (Ortega, 2010). In an organization, performance is a complex interrelationship of seven criteria; effectiveness, efficiency, product and or service quality, productivity, quality of work life, innovation and profitability (Mc Kee, Varadarajan, and Willian 2006).

Some studies support Porters assertion that performance of firm pursuing either cost leadership, differentiation or focus strategies are superior than those firm stuck in the middle (Powers, and Hahn, 2004) while others reported better performance for hybrid strategies (Leitner, and Guldenberg, 2010). Koo, Sang, Kim, and Nam, (2007) found that not all generic strategies are associated with high performance in a specific industry. For instance, they noted that differentiation

strategy is best route for e- business to achieve higher performance.

The transport industry is growing at a very fast pace in tandem with bulging population. According to Kenya National Bureau of Statistics, passenger transport in Kenya grew by 2.9% to a mass Kenya shilling 322.2 Billion in earning in 2015 alone (Kenya National Bureau of Statistics, 2016). In Nairobi City, business involving hiring of cars has been on the rise. In recent years, car hire business has been considered a booming business in the City. The amount of income generated by the car hire business in the City can be as low as Kenya shillings 2,500 per day depending on the make of the car and duration of the service rendered. The price withstanding one is required to fuel the car and return it promptly once the duration of the lease has expired to hire company in Nairobi (Wamugunda, 2014).

Car hiring in Kenya rents automobile for a short period of time, which varies from hours, days, or weeks. Car hire business operating in Kenya has been known to have numerous branches located at different regions most having a website that allows clients to make on line reservations. Some care hire firms have provision for self-drive where us other provide a driver.

Literature Review

Marketing events should be established in a way that accommodates strategies developed by an organization as this will improve performance (Douglas, and Neil, 2003). In a configuration theory the structure of an organization and environment in which it operates has an influence on performance (Fincham and Rhodes, 2005). To survive in the dynamic market forces an organization should endeavor to develop sustainable strategies due to environmental restrictions (Gao, Zhou, and Yim, 2007).

The objective of cost leadership is to improve efficiency and control throughout the supply chain of the organization (El-Kelety, 2006). Striving to produce products or services at the required standards, high volume of out-put at the most competitive price to the consumer is also an objective of cost leadership strategy (Li and Li, 2008).

Cost leadership strategy aims at achieving a competitive advantage in the industry by having the lowest price in the market (Bauer and Colgan, 2011). Mass production, economies of scale, product design are just a few but to mention among the areas where the cost leadership strategy can be employed to achieve a sustainable competitive advantage (Malburg, 2010). Performance of a company is measured by comparing it to the standard units of measure. Debate on cost leadership and performance have been going on and yet to be concluded however scholars believe that the environment in which the company operates has a great influence. Lowering prices for services or commodities can be achieved through innovation, product design, reducing turn over time during production and re-engineering of the existing goods or services (Prescott, 2010).

Cost leadership strategy boosts customer's loyalty, result in losses if the prices has been reduced way too much and as a result might not be advantageous (Johnson and Scholes, 2004). According to Mc Cracken (2012), cost advantage can be realized by accessing bulky cheap raw materials out sourcing certain products or services to avoid the high cost implications associated with production (Reilly, 2012)

Cost leadership strategy is where a company offers the lowest price for its products or services (Dani, 2017). Performance in public university was significantly affected by cost leadership strategy (Sifuna, 2014). In Kenya, telecommunication industry chose to use

cost leadership strategy to a greater level as it was found to enhance performance compared to other competitive strategies (Kyengo, Ombui and Iravo, 2016). Performances of supermarkets in Nairobi Kenya are affected by cost leadership strategy (Mutegi, 2013). A study conducted on competitive strategies that are adopted by Bank of India, Kenya revealed that cost leadership was found to be less significant to influence performance (Achoki, 2013).

Methodology

This was a cross-sectional descriptive study design where both quantitative and qualitative approaches were employed. There are over fifty car hire companies in Nairobi; Almaco car hire, Amco Taxi & car hire, Arrow car hire Ltd, Avenue car hire, Avis rent a car Ltd, Asul car hire, Tourline and travel Ltd, Trans Kenya safaris and travel, Waka car hire Ltd, Westlands car hire Ltd, Holiday safari Ltd, Bayo Ltd, Budget rent a car, Barnany car hire just to mention a few (Venasnews, 2016).

Table 1: Variables and Hypothesis

Variables		Hypothesis	Test
Independent variables	Parameters		
Cost leadership (X ₁)	-Charges same as competitor -Charges lower than competitor -Higher than competitor	H ₀₁ : Cost leadership strategy has no significant influence on car hire business in Nairobi City	Multiple regression: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 Z + \beta_6 Z * X + \mu$ Accept if $p < .05$ or otherwise reject

Source: Field data (2018)

There are more than sixty car rental companies that are dully registered in Nairobi City County by Nairobi city council licensing department (Wamungunda, 2014). This study targeted 15 car rental business companies which were licensed by the Nairobi city council licensing department. The average number of employees working for this car rental business ranged between 10 and 20 depending on the size of the company. These car rental companies had three levels of management comprising of top level/administrative, middle level/executory and the low level/first line manager/operative. Since the study targeted 15 car rental businesses, the study sought to target the 45 top managers and the key person that was interviewed in this level of management was the operation managers, finance manager and marketing manager. The study sought to interview at

least three employees in the top management in each of the 15 registered car rental businesses. In the middle level management, a total of 94 employees in all the 15 registered car rental business were interviewed. Approximately six (6) to seven (7) employees in each of the 15 registered car rental businesses were interviewed. The middle level management in each of the selected car rental business company was employees who control the overall activities. A total of 61 employees in the low level of management were involved in the day to day operation representing the work force of the car rental business recruited. Out of the 61 employees in the low level management, between four (4) and five (5) employees in each of the car rental business were recruited and interviewed for this study. The study interviewed 200

respondents to collect data that answered the set objective.

The study employed stratified and simple random technique in recruiting the three category of the respondent. The employees in each car rental business were stratified then simple random sampling was used to recruit subjects in the three level of management. A structured questionnaire was used to collect the primary data. The questionnaire was used on the respondent who were able to read write and respond to questions when called upon. The questionnaire was carefully designed, validated and data collected was accurate. The validation of the questionnaire was done during questionnaire formulation stage in order to ensure that the measure included was adequate and represented the set items that tapped the content. The study was content valid indexed (CVI) which was measured by computing or rating the relevant items in the instruments by testing their clarity and significance in line with all objectives stated in the study.

Statistical package for Social Sciences (SPSS) version 22 was used as software to analyze quantitative data collected. The quantitative data collected was analyzed using a descriptive statistic that includes proportions, mean scores, frequencies and standard deviation.

Binomial and Multiple regression analysis were used to analyze data collected where independent variable (the four competitive strategies) was tested at 95% confidence interval against dependent variable (performance). Where P- value that was gotten to be less than 0.05 was considered statistically significant.

Results

This study had sought to explore the degree to which cost leadership strategy impacted on performance by looking at the outcome on selected car rental business in Nairobi City. The study evaluated the research question by viewing the findings of measure of central tendencies, correlation and regression analysis, chi-square tests and analysis of variance.

Descriptive statistics was used in the analysis and the outcome of the effect of cost leadership strategy on performance by the selected car rental business in Nairobi City was presented as in table 2 where the respondent were asked to give their view (in a scale of 0-4) with regard to influence of cost leadership strategy. The table is offered in two sections, A and B. Where part A shows cost leadership strategy used and B the effect of cost leadership strategy on performance.

Table 2: Frequency distribution of the effect of cost leadership strategy on performance

Section A: Cost leadership strategy used by selected car rental business in Nairobi City				
	Frequency	Percent	Valid Percent	Cumulative Percent
Charges higher than competitor	27	13.5	13.5	13.5
Charges same as competitor	139	69.5	69.5	83.0
Charges lower than competitor	34	17.0	17.0	
Total	200	100.0	100.0	100.0
Section B: Cost leadership strategy affects performance by selected car				

rental business in Nairobi City				
	Frequency	Percent	Valid Percent	Cumulative Percent
Very large extent	122	61.0	61.0	61.0
Great extent	70	35.0	35.0	96.0
Moderate extent	8	4.0	4.0	
Total	200	100.0	100.0	100.0

Source: Field data (2018)

As revealed in table 2, the study found out that the cost leadership strategy being used by car hire business in Nairobi city was 69.5% (139) charged the same as their competitor, 17% (34) charged lower than competitor and 13.5% (27) had higher charges than competitor. It was also noted that cost leadership strategy affects performance by 61% (122) to a very large extend, 35% (70) to a great extent and 4% (8) to a moderate extent.

According to Bauer and Colgan, (2011) and Dani, (2017) having a lower price than your competitor gives a firm an competitive advantage hence used as cost leadership strategy. The findings in this study noted that cost leadership strategy affected performance by 61% (122) to a very large great extent with majority 69.5% (139) deciding to charge same as their competitor. The reason why most car hire business charge the same as their competitor is that this industry has set standard market rate with in which they operate and adhere to. Few 17% (34) outliers were able to implement the cost leadership strategy of charging lower than their competitors. The reason that they gave for charging lower than their competitor was governed by, years of experiences they've had in the car hire business, the year of manufacture of the car they are hiring, condition of the cars and the number of car fleets they had.

Chi-square is used as statistical technique to assess the goodness of fit between pairs

of observed values and their expected outcome. In this study, chi-square was used to confirm the strength of association between the effects of cost leadership strategy and the extent of performance by selected car rental business in Nairobi City.

Chi-square was used to test significance level that the cost leadership strategy had on the extent of performance by the car hire business in Nairobi City. The findings shown in table 3 B indicated that there was no significant (P value 0.205) association between the cost leadership strategy adopted by the car hire business in Nairobi City and extent of their performance. However, as indicated in table 3 A, it was observed that 13.6% (3) charges higher than competitor with a very large extent on performance. The car hire business that charged at higher than competitor, 18.2% (10) had a great extent on performance, 11.5% (12) among those that charged higher than competitor had a moderate extent on performance and 10.5% (2) amongst those that charged higher than competitor had little extent on performance.

Table 3: Chi-Square testing the effect of cost leadership strategy on performance

Section A: A cross tabulation on the extent of performance and the cost leadership strategy adopted by the car hire business in Nairobi City						
			Cost leadership strategy used			
			Charges higher than competitor	Charges same as competitor	Charges lower than competitor	Total
Extent of performance	Very large extent	Count% within Extent of performance	3 (13.6%)	12 (54.5%)	7 (31.8%)	22 (100%)
	Great extent	Count% within Extent of performance	10 (18.2%)	41 (74.5%)	4 (73%)	55 (100%)
	Moderate extent	Count% within Extent of performance	12 (11.5%)	73 (70.2%)	19 (18.3%)	104 (100%)
	Little extent	Count% within Extent of performance	2 (10.5%)	13 (68.4%)	4 (21.1%)	19 (100%)
Total		Count% within Extent of performance	27 (13.5%)	139 (69.5%)	34 (17.0%)	200 (100%)
Section B: Chi-Square Tests						
				Monte Carlo Sig. (2-sided)		
	Value	df	Asymp. Sig. (2-sided)	Sig.	99% Confidence Interval	
					Lower Bound	Upper Bound
Pearson Chi-Square	8.419	6	0.209	0.205	0.195	0.216
Likelihood Ratio	8.653	6	0.194	0.238	0.227	0.249

Source: Field data (2018)

Finding of this study revealed that the cost leadership strategy adopted by the car hire business had no statistical significance on

performance. These findings were contrary to those by Kyengo, Ombui and Iravo, (2016) and Mutegi, (2013) who found out

that cost leadership strategy significantly affected performance of a firm. Nonetheless, Achoki (2013) observed that cost leadership strategy was found to be less significant to influence performance.

Discussion

The current study hypothesized that there was an association between cost leadership strategy and performance. The null hypothesis was accepted and the alternative hypothesis rejected. The results of this study were inconsistent with previous studies that looked at the influence of cost leadership strategy on performance. For instance, Marques *et al.*, (2000) studied twelve large glass companies in Portugal and noted that the companies that practiced cost leadership strategy recorded higher returns. Shah *et al.*, (2000) observed that Japanese companies that charged lower than their United State of America and Germany performed much better. The most likely explanation could be attributed to an influx in the number of the car hire business in Nairobi City County. There are many business entrepreneur in car industry that the market demands them to lower the price of the services they offer.

Other studies that also looked at the effect of cost leadership strategy on performance included Thathi (2008), who reported that firms in Kenya used discounts, competitive pricing to enhance their performance. In this present study, majority of car hire business in Nairobi City were charging same as competitor. The probably reason was fear of losing a client to competitor in a market that is already flooded. The type of pricing strategy observed among the Car hire business in Nairobi City generally describes a competitive strategy. It seems the car hire business in Nairobi City has reached a level of equilibrium. This occurs when the services has been offered in the market for a long time and many substitute are available. Despite charging the same prices for their services,

car rental business owners should attempt to differentiate among themselves through marketing.

Murimiri (2008) found out that the price reduction was used a cost leadership strategy by commercial banks to achieve competitive advantage over their competitor. In the current study only 17% were reported to have charged lower than their competitor. An entrepreneur that opts to charge below the current market price is at risk of running into a loss. Some business owners opt to charge lower than their competitor hoping that customers will consider purchasing additional services they offer. These firms makes profits from other products or services to subsidize the economic loss suffered on the loss leader strategy.

Conclusion

Cost leadership strategy was not statistically significant in affecting the performance of Car hire firms in Nairobi City County. Majority of the Car hire firms in Nairobi City County Charged same as competitor. To a very large extend, it was observed that cost leadership strategy affected performance of car rental business in Nairobi City.

Recommendations

There need to study the effects of other competitive strategies on performance of car rental business in Nairobi City.

Implications Of The Study

To sustain a cost leadership strategy an entrepreneur should become aware of the competitors offer and consider developing customer intimacy and focus on a narrow target market.

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