Cost Leadership Strategy and Performance of Registered Food Processing Firms in Nairobi City County Kenya

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Abstract: *Among the main factors of economic growth in Kenya is the food processing industry and therefore the government of Kenya has financed and supported the growth and development of this industry. Nonetheless, critical analysis pointed out food-processing firms experienced declined performance. As a result, this study sought to examine the effect of cost leadership strategy and performance of registered food processing firms in Nairobi City County, Kenya. Particularly, this study was anchored on the Resource Based View Theory, and adopted a descriptive research design. The study targeted 102 registered food-processing firms in Nairobi City County, Kenya. Data was analyzed through the descriptive statistics; mean, standard deviation, and percentages and inferential statistics; correlation and regression analysis. Primary data was collected from the management employees of the registered food processing firms from the five main departments of Finance, Human Resource, Marketing, ICT, and Procurement. The study recognized that cost leadership strategy, has a positive and important effect on the performance of registered food processing firms in Nairobi City County, Kenya. This study recommended that in as much as cost leadership strategy offers competitive advantage the food processing firms should not only put value on low prices but also on the quality of products they produce.*

Keywords: *Cost Leadership Strategy, Performance*

1. INTRODUCTION

Through globalization ever-changing competitive surroundings has constantly been varying over the, knowledgeable and demanding customers, changing technology, increasing intensity of competition (Wing, Lenartowicz & Apud 2016). In view of this, organizations are the force of economic, political, and social development. When the organization develops new commodities, there is improved performance, which leads to sustainable growth (Silva, Styles, & Lages, 2017). In order to get new and improved goods and services the organizations should endeavor to undertake continuous research and development (Karabulut, 2015).

Measuring the continuous improvement of an organization is the key focus of scholars in management this is because firm performance is important in order to measure the behavior and competitive market environment. (Gavrea, Ilieş & Stegerean, 2011, Short, Mc Kelvie, Ketchen & Chandler, 2009; Kinyua, Kilika & Muathe 2015). Theoretical and empirical literature is full of scholarly evidence to ensure that there is meaning, character, and continuous improvement of organizations. Likewise, academic literature has put in place dissimilar arguments that involve firm performance.

Due to the changes in the financial environment, there has been a need for flexibility and adaptableness for businesses to be competitive (Barney, Wright, and Ketchen 2001). Organizations need to be aware of their competitors. (Johnson and Scholes 2004). Devonish (2009) noted that there has been improvement in the performance of firms that incorporate cost leadership strategy in their daily activities as compared to other firms that do not adopt this strategy. For organizations to progress to implement action, they have to deal with the pressure in the environment by attracting and retaining customers.

The Kenya Association of Manufacturers show relationships among organizations, industries that are involved and the different sectors and subsectors that take part in production, assembling, processing, and output in Nairobi, Kenya an example is the food processing firms (KAM, 2015). In order to

maintain competitive market environment, The Kenya association of manufacturers ensures that they have put in place measures that encourage trade and investment, maintain their standards, and improve their performance and administration of their policy. By rousing global competitiveness, KAM makes an enabling environment by enhancing work progression and economic participation that supports the universal performance of the food processing industry to Gross earnings.

Devinney, Johnson & Richard, (2009) proposed that having efficiency and effectiveness in order to gain the set goals that may be used to measure organizational performance. Some scholars have gone for financial pointers or non-financial pointers while others prefer combining them together for firm performance measurement. Those firms incorporating the use financial indicators have found out that finance is an important firm resource to be put at the top of other resources, which are needed to follow organization ambitions as a result economic performance is at every stage of the firm (Richard, 2009). All researchers that have applied the use of non-financial indicators have an opinion that the non-financial measures are important in accepting the current and forecast potential working environment of the firm (Kinyua, Muathe & Kilika, 2015). Therefore, the non- financial measures, which comprise of market share, product quality, and customer satisfaction, were used to analyze the achievement of registered food processing firms in Nairobi City, County Kenya.

2. STATEMENT OF THE PROBLEM

As noted by the Kenya Association of Manufacturers, the food processing industry takes part in very important functions that involves growing the financial system of Kenya. The Government of Kenya has put in place substantial resources for the growth and development of important infrastructure and upgrading of general logistics structures to support this sector. Notwithstanding the immense contribution and responsibility of public assets, Kenya National Bureau of Statistics (KNBS) elaborated that there had been a remarkable decline in the production of food manufacturing organizations. The food processing industry production standardized at 2.6%, 2.3% and 2.1% in 2015, 2016 and 2017 respectively (KNBS, 2016) substantiating reducing output drift.

Production movement in relation to this industry implied the allocation regarding input about food manufacturing organizations to the financial output, which constantly decreased. With this, the economy of Kenya is having incidences of early deindustrialization, which suggests that the food-manufacturing sector may not be growing as is expected of them (KAM, 2016). Moreover, the poor performance of the food processing firms has lead to closing down of various important players in the sector. Some of the firms that have been affected by the closures are Pecha Food Company in 2016 and Maz food Limited in 2017 (KAM, 2017).

Previous researches on cost leadership strategy have continued to be done by scholars in Kenya. An example is, Muathe (2020) whose study was about cost leadership strategy, competitive advantage, and performance of milk processing firms in Kenya. Mbaru (2020) investigated on the Influence of cost leadership strategy on the performance of tea processing factories in Murang'a County, Kenya, Kiprotich (2018) investigated on the influence of cost leadership procurement strategy on performance of manufacturing firms in Kenya, Atikiya (2015) did a study on the effect of cost leadership strategy on the performance of manufacturing firms in Kenya.

These studies focus mainly on cost leadership strategy and cost advantage. Therefore this study, sought to fill the gaps by investigating the effect of cost leadership strategy on performance of registered food processing firms in Nairobi City County, Kenya.

3. LITERATURE REVIEW

3.1. Resource Based View

Resource based view (RBV) in an organization is an administrative structure that was advocated by Penrose (1959) as a theoretical foundation to deliver competitive advantage in an organization. RBV recommends that the organization management needs to focus on the internal matters in order to uncover the basis of competitive advantage as an alternative of concentrating on the Competitive environments. In addition, Wernerfelt (1984) puts emphasis that with the way firms look after its important assets determines its overall performance. RBV makes known the resources and potential features to which serve to improve the performance of the firm (Morheney & Pandian, 1992). The

RBV assumes that people get the motivation to make use of the available resources to them, stand the common cost-effective structure updates the rational decisions that the organization would make (Barney, 2007).

The three key compositions of assets are potential, competences, and resources Barney and Hesterly (2010). Resources are the storage of readily available items that are in the possession of the firm. Through the improved technological advancement that was built to act in response to the different needs of the customer, competencies enable firms to differentiate their deliverables' quality. They give power to and prepare the organization to skillfully compete with their competitors in the environment. The RBV contributes in management because of the distinction on the specific resources of the firm that are seen as the providers of the organization's competitive advantage and worthy routine (Davidsson & Mckelvie 2009; Levesque, 2010; Anderson, 2011).

Davidsson and Mckelvie (2009) stated that all rounded proficiency obtained from information and capability authorizes the firm's management on the usage and consumption of assets for performance improvement through organizing and putting funds in their correct and most efficient usage. On RBV, Lockett, Morgenstern and Thompsons (2009) state it gives more information on the assets that the firm holds and the abilities for the return rates and performance improvement. The RBV theory puts in to the methods of assisting management to ensure essentials that contribute to improved performance are there. Locket, Morgenstern and Thompson (2009) ascertain that the Resource Based View theory assists in giving constructive performance of an organization.

Managers are empowered to utilize the weaknesses in the market environment to put their performance at a superior point. The same managers are then placed to assemble resources for survival and high performance. With this theory, organizations permit the managers to pick the most planned effort to obtain and make use of in the market environment. Daellenbach and Rouse (2010) and Kenneth (2012) nonetheless, dispute that RBV makes the organization's truth and it is inclined to suppose a linear non-problematic link. Furthermore, the theory is not intense on the aspects in the environment that affect performance of the organization. Barney and Hesterly, (2010) illustrated that assets which are of value improves the organizations performance which exceptionality makes perfect resistance mostly where the income is scarce. Unique resources are expensive to replace but non-substitutable have no option in accomplishing the similar goal amongst opposing organizations.

Barney, Kitchen and Wright (2001) stated that each firm has a wide array of assets, which are physical and intangible. The physical assets are those that can be able to be seen, these are the assets of the organization which are the structural amenities and work apparatus. Additional, firm traits like morals, procedures, and trade name not incorporated in the usual management systems known as intangible assets. The intangible resource causes competitive advantage and excellent performance as compared to the substantial assets. In the study, the theory of RBV has been used to put emphasis on the competitive strategies as independent variable and performance as dependent variable. However, this study used the Resource Based Theory as important in anchoring cost leadership strategy and performance of the food processing firms in Nairobi City County, Kenya.

3.2. Empirical Literature

Yanney (2014) conducted an investigation that illustrated; cost leadership strategy takes advantage of competitive benefit of an organization as compared to their rivals. Cost leadership strategy targets to take advantage of production expenses, a well explained scope and other economies that include an excellent purchasing plan, production of high produce, and using up to date technology. Valipour, Birjandi and Honarbakhsh (2015) did a study towards how cost leadership strategy is affected by ways in which organizations perform, the outcome illustrated stating firms incorporating cost leadership strategy, have optimistic relationships between cost leadership and expenditure share with output. The conclusion affirmed there are links that were constructive amid control with the extent of the organization with output inside the firm.

In Kenya, a study was done on how cost leadership strategy leads to worthwhile competitive benefit of Naivas supermarket Muasa (2014). The study recognized that Naivas supermarket frequently incorporated the cost leadership strategy in their procedures through outlining their little as well as medium revenue market gaps, for there is room for improvement in the effectiveness of their cost

leadership model. This study additionally identified that market company situation is vibrant which is described by organizations that have the possession to be private that outline types of competitive strategies that applied.

When organizations encourage production at a low cost compared to its rivals and make sales to a large consumer base, it will benefit from economies of scale and expand its market share due to having a competitive advantage and consumer traffic. To ensure that this perspective is sustainable, the organization requires incorporating innovation and being involved in cost reduction and efficient management and organizational improvement programmes. Organization need to outsource goods and services whose production cost is high (Gudumundsson, 2014).

In view of the reviewed empirical literature, there is a gap in literature. The current study has however, disintegrated cost leadership strategy in order to concentrate on the effects of cost leadership strategy on performance of registered food processing firms in Nairobi, Kenya.

3.3. Conceptual Framework

Concerning the literature reviewed, the study developed the conceptual framework shown on the figure 1. This conceptual framework shows the relationship expected to be between cost leadership strategy and performance of food processing firms in Nairobi City County, Kenya.
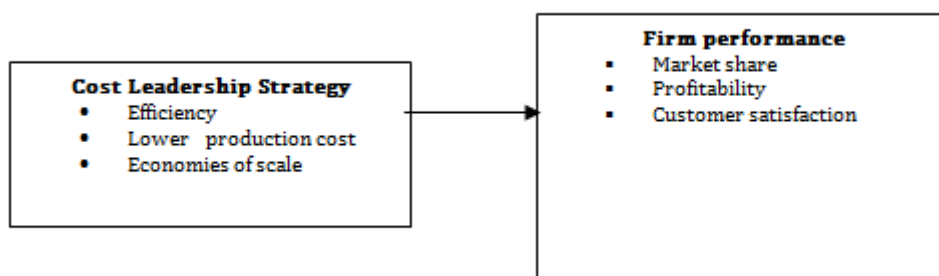
Figure1. *Conceptual Framework*

Source: *Author (2021)*

4. RESEARCH METHODOLOGY

This study utilized descriptive research designs as recommended by Saunders and Lewis (2009). According to Rossman (2014), a descriptive survey puts emphasis on the process of data collection to assist in the study hypothesis testing. The target population of this study comprised of the 102 registered food-processing firms by KAM and located in Nairobi City County. The researcher randomly sampled 30% of 102 food-processing firms that gave 31 food-processing organizations. For guidance, function as disputed by Lewis, Saunders, and Thornhill (2009) the study at random picked the five functional areas, which are Finance, Human Resource, Marketing, ICT, and Procurement. The 31 food processing firms and the five functional areas explained the 155 respondents that structured the unit of observation. The validity of the questionnaires was done and confirmed with the use of opinions from experts in strategic management. The reliability of the questionnaire was measured through Cronbach Alpha. The reliability of the collected data was done with the help of SPSS. The acceptable level in accordance to Hair (2011) would be 0.7. The reliability coefficient results were as shown in table 1.

Table1. *Reliability Coefficients*

Variable	Number of Items	Cronbach's Alpha Coefficient	Conclusion
Cost Leadership Strategy	12	0.892	Reliable
Performance	3	0.761	Reliable
Overall		0.827	Reliable

Source: *Research data (2021)*

The outcome from Table 1 established actions of study variables had a Cronbach's alpha index above 0.70 as a suitable gauge for representing reliability. Aggregate score of Cronbach's alpha was 0.827. The conclusion was that the study constructs were reliable.

Likewise, the questionnaires collected from the departmental heads were condensed for comprehensiveness and consistency. Based on the locale of the respondents, coding was done. Explanatory and inferential data was applied to examine the data collected that was quantitative in nature. Explanatory statistics comprised of; mean, standard deviations, percentages, and frequencies were calculated and presented in table formats and figures. The investigation of inferential statistics entailed usage of simple linear regression investigation. The adjusted coefficient of determination (R-squared) was used to show the extent to which the different changes in the performance of the organization were explained by the changes in cost leadership strategy in food processing firms in Nairobi City County, Kenya. Furthermore, the F-statistic were tested also at 95% confidence level to test whether there was a significant relationship between cost leadership strategy and performance of registered food processing firms in Nairobi City County, Kenya.

4.1. Descriptive Results

This study sought to determine the extent to which cost leadership strategy and performance were incorporated in food processing firms in Nairobi City County.

4.2. Cost Leadership Strategy

In this section the least, highest, mean, and standard deviation values were presented for the incorporation of each study variables. Table 2 shows the mean and standard deviations of the measurements of cost leadership strategy.

Table2. *Descriptive Statistics for Cost Leadership Strategy*

Statements	N	least	highest	Mean	St dev
The organization puts importance on cutting costs and efficient usage of funds	110	3	5	3.82	3.58
Cheaper raw materials are readily available to the organization	110	3	4	2.65	2.37
The organization sells consistent products and service	110	3	5	3.54	3.29
The organization uses the unskilled labor surpluses to their advantage	110	3	5	3.58	3.44
The organization offers products of lesser price than its rivals	110	4	5	2.65	2.36
The organization invests greatly in sales promotion	110	3	5	2.91	2.57
The organization maintains its employees by presenting them with promotion opportunities and benefits	110	3	5	3.31	2.91
The organization offers discounts to its consumers	110	4	5	3.32	3.03
The organization with the use of technological advancement regularly reduces labor costs	110	3	5	3.25	2.90
The organization classifies poor performing areas and does corrective actions so as to minimize costs	110	3	5	2.06	1.94
Aggregate score for cost leadership strategy				3.11	2.84

Source: Research Data (2021)

In the results shown from Table 2 illustrated that the aggregate sample mean score for cost leadership strategy was 3.11, likewise, the aggregate sample standard deviation was 2.84. The combined mean score made a confirmation that the respondents were in agreement with the statements that were used to measure cost leadership strategy and that they were incorporated in the registered food processing firms that were observed in the study.

Relatively, with the smaller standard deviation as compared to the mean it demonstrated that the gathered responses were clustered near the aggregate mean response being 3.82 on cutting costs and efficient use of resources, and the least sample mean was 2.06. In the same way, sample standard deviation varied between 1.94 and 3.58. The different levels of standard deviation comparative to the mean established that the inconsistency linked to the responses was low and hence, it was likely to conclude the limitation of population mean from the calculated sample mean. Additionally, the aggregate sample mean and standard deviation attained from the responses validated that the characteristics used in measuring cost leadership strategy were critical for the performance of registered food processing firms in Nairobi City County, Kenya.

4.3. Performance

This section presents standard deviation, mean, least, and highest values for performance of registered food processing firms in Nairobi City County, Kenya as shown in Table 3.

Table3. *Descriptive Statistics for Performance*

Statement	n	Mean	Std dev
There have been improvement in customer service	110	3.71	0.89
Is consumer loyalty the main concern in your organization	110	3.33	0.93
Has the organization increased its engagement to the public	110	3.61	0.88
Due to satisfaction employee turnover has decreased	110	3.66	0.90
There has been an improvement in customer retention	110	3.52	0.91
Aggregate score for performance		3.56	0.90

Source*: Survey data (2021)*

The outcome shown in Table 3 illustrated that the aggregate sample standard deviation and sample mean for performance of registered food processing firms were 0.90 and 3.56 respectively. The aggregate sample mean value approximated to a score of 4.00 on the five-point ranking scale that was adopted by the researcher. This means the respondents agreed that, improvement in customer service, prioritizing customer loyalty, customer engagement, effect of employee satisfaction and improvement in customer retention are important in their food processing firms. The actions of measure sample established that the feedback from the respondents on the level of variability was low and therefore the representative being a dependable approximation of mean population. Moreover, figures reported from Table 3 illustrated the aggregate results revealing actions used to point out and consequently evaluate performance of the registered food processing firms.

5. INFERENTIAL ANALYSIS

The purpose of this study was to find out the effect of cost leadership strategy on performance of registered food processing firms in Nairobi City County, Kenya. To attain this purpose, this study depended on regression analysis and correlation analysis.

5.1. Correlation Analysis

Correlation analysis was performed in order to determine the effect of cost leadership strategy on performance of registered food processing firms in Nairobi City County, Kenya. Therefore, cost leadership strategy was analyzed with performance and the results of the correlation analysis were as shown in Table 4.

Table4. *Correlations Analysis Results*

		Firm Performance	Cost Leadership Strategy
Firm Performance	Pearson Correlation	1	
	Sig.		
	n	110	
Cost Leadership Strategy	Pearson Correlation	.524	1
	Sig.	.000	
	n	110	110

Source: *Research Data (2021)*

In table four results indicated that there is a moderate positive correlation between cost leadership strategy and performance ($r=0.524$; $n=110$; $p<0.05$). Therefore, this results show that there was a positive correlation between cost leadership strategy and performance.

5.2. Regression Analysis Results

Cost leadership strategy was regressed on performance of food processing firms. The outcome of the regression analysis was illustrated in Tables 5 and 6.

Table5. *Model Summary for Cost Leadership Strategy*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.524	.274	.267	.23539

Table 5 shows the results that the coefficient R squared was 0.274 showing that this model predicted 26.7% changes in the performance of food processing firms in Nairobi City County, Kenya. These results also entail that other factors predicted the remaining 73.3% of the performance other than those included in the model. Analysis of Variance (ANOVA) was conducted to find out how well the model would be used in predicting the performance of food processing firms.

Table6. *ANOVA for Cost Leadership Strategy*

Model	Sum of Squares		df	Mean Square	F	Sig.
1	Regression	2.260	1	2.260	40.779	.001
	Residual	5.984	108	0.055		
	Total	8.2438	109			

These results in Table 6 illustrated that the F-Statistic for the model was ($1,108 = 40.779$) which was found to have sufficiently fitted the set of data observed from the field. This indicates that the model was fit in predicting performance. Similarly, the results show the P value for the model to be 0.001, which is less than the significance level of 0.05. Consequently, the results above indicate that the model was significant in predicting performance and that the linear regression model that was estimated provides a good fit to the observed data.

6. CONCLUSION

The researcher sought to investigate the effect of cost leadership strategy on performance of registered food processing firms in Nairobi City County, Kenya. Cost leadership strategy was operationalized using efficiency, low production costs and economies of scale. According to the descriptive statistics analysis, it showed that on average the respondents concurred that cost leadership strategy actions were practiced in the registered food-processing firm in this study. The low standard deviation comparative to the mean evidently showed that the feedback from the participants was moderately near the aggregate mean response. Additional statistical analysis established that cost leadership strategy dimension had a significant effect on performance. As a result, cost leadership strategy positively contributed to performance of registered food processing firms in Nairobi City County, Kenya. Further, the researcher concluded that cost leadership strategy positively affects performance of registered food processing firms in Nairobi City County, Kenya.

7. RECOMMENDATIONS

Based on the findings and inferences made from this study they are bound to the constructs of cost leadership strategy and performance of registered food processing firms in Nairobi City County, Kenya. As a result, it is necessary for future researchers to take on similar empirical studies in food processing firms in various other Counties in Kenya as well as in other organizations and sectors in order to confirm the findings and conclusions of this study. Likewise, other factors that may not have been considered in the relationship as suggested by the coefficient of determination may also warrant the attention of future researchers.

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