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CAN COMPETITIVE STRATEGIES SHAPE PERFORMANCE OF PUBLIC ENTITY?

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ABSTRACT *Firms operate within an environment that influences their operations either positively or negatively depending on the nature of their business. This study was guided by positivist philosophy. The positivist school of thought is based on the assumption that only one reality exists, though it can only be known imperfectly due to human limitations and researchers can only discover this reality within the realm of probability. The study adopted a descriptive cross-sectional census survey on a population of 187 Kenyan State Corporations across the public sector. The study used primary data collected by questionnaires administered to the Chief Executive Officers of the State Corporations. The study also used secondary data on performance collected from annual performance contract reports for State Corporations for the five performance contracting cycles between 2009 and 2014 from the Department of Performance Contracting in the Ministry of Planning and Devolution. The results indicated that competitive strategies had statistically significant effects on the performance of Kenyan state corporations. At policy level, the Government will benefit from the study by developing guidelines and policies to define the required competitive strategies. Management will benefit from this study because they could use it to formulate internal organizational processes that would guide the positioning of the organization. Performance was tested as a composite score as reported by the Performance Contracting Department. It would be interesting if the individual competitive strategies dimensions were tested against the raw score of each of the six performance areas in the performance contracts.Since the context of the study was Kenyan State Corporations future research could be undertaken to replicate this to compare performance of Kenyan State Corporations with that of public quoted companies at the Securities Exchange or other sectors of the economy to check whether the findings would be the same. Further, a similar study could be replicated but in a different context, such as a private companies in Kenya using the same variables.*

Key Words: Competitive strategies, Performance, Public Entities

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1. INTRODUCTION

Organizations, whether for profit or non-profit, private or public, have found it necessary in recent years to engage in strategic thinking in order to achieve their corporate goals (Bryson, 1995). Firms operate within an environment that influences their operations either positively or negatively depending on the nature of their business. The environment comprises of a combination of internal and external factors that influence a company's operating situation, among them being competition.

Competition is the process of rivalry between firms striving to gain sales and make profits; it is the driving force behind markets. As documented by Lewis (2004), for economic growth and development in any industry to happen, efficient and fair markets are essential. The nature of the competitive strategy and firm performance relationships can be associated with the industrial organization framework of industry behaviour, whereby firm profitability is viewed primarily as a function of industry structure.

Barney (1986) noted that characteristics of any industry are the key influences on organizational performance. According to Porter (1980), a business can maximize performance either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by focusing the organizational efforts on a given segment of the market.

A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2003). Sustainable competitive advantage is born out of core competencies that yield long-term benefits to the company. Lewis (2004) defines a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. He further explains that a core competence has three characteristics: first it provides access to a wide variety of markets; secondly it increases perceived customer benefits; and thirdly it is hard for competitors to imitate. Sources of competitive advantage include high quality products, superior customer service and achieving lower costs than its rivals.

Aosa (1992) notes that inefficiencies within commercially oriented state enterprises have clear national, financial and fiscal implications as their activities impact directly on overall public sector expenditure and resources. Organizations have been challenged to re-think conventional business models and look for new sources of business as a competitive strategy to counter business turbulent environment. Apart from making structural adjustments to their businesses, state corporations have been forced to re-engineer their businesses and put in place some winning strategies to enhance their competitive advantage in the liberalized markets (Atkinson & Brander, 2001).

Public enterprises in Kenya play a major role in most economies through the provision of diverse public services such as transport and energy, infrastructure and social amenities like schools and health services to communities. Despite these important socio-economic gains, most of the parastatals in Kenya are characterized by inefficiency, losses and provision of poor products and services. Subsequently, they have caused

heavy budgetary burden to the public. Against this background, international organizations such as the InternationalMonetary Fund (IMF) and the World Bank (WB) proposed the privatization of Kenyan parastatals in1994 through the Structural Adjustment Programs (SAPs).The SAPs were aimed at reducing government participationin the economic sector and to increase the productivity of parastatals. Since then,this intervention has led to the popularization of privatization as a solution to the problemsofparastatals even though the exercise did not bring the much coveted efficiency gains(Mwaura, 2007).

2. LITERATURE REVIEW

Porter (1995) discussed the basic types of competitive strategies firms' possess (low-cost, Differentiation and focus) to achieve sustainable competitive advantage. Sustainable competitive advantage is the prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by current or potential competitors along with the inability to duplicate the benefit of this strategy.According to Porter (1980), a business attempting to combine more than two approaches invariably ends up stuck in the middle. He argues that the competitive strategies and positioning are based on incompatible assumptions and thereby create trade-offs within the organization.

A creative and distinctive strategy that sets a company apart from its rivals and yields a competitive advantage is the company's most reliable ticket for earning above average performance. Thompson et al. (2007) stressed that without this, a company risked being out competed by stronger rivals and/or being locked into the mediocre financial performance. Organizations around the world are bracing themselves for stiffer competition emerging in the market place fuelled by increasingly uncertain environments. As such there is need for establishing clear organizational strategy, focused on narrow objectives of what is at stake in the current moment, and aligning those strategies with the entire organization. Despite much debate on strategy, there is little consensus as to whether organizational capabilities or market competition are more important in shaping firms' actions and performance. According to Huber (2004), reciprocal interactions at multiple levels of analysis between the market environment and firm capabilities shape business strategy and performance, while interactions between strategy and performance, in turn; shape both organizational capabilities and competitive environments.

In an effort to improve organizations profitability, and the overall performance, Barney (1986) noted that managers continuously make decision whether to launch new strategic initiatives as well as how to respond or counter other competitors' moves. He however points out that managers are able to make more effective decisions if they fully understand the firm's competitive environment.

Kotler et al. (2008) noted that the quest for improved performance often leads managers to consider market entry opportunities. Such opportunities involve either pioneering a market or entering a market that is already occupied by others. High and comprehensive knowledge of the market is needed because there are many crucial factors to consider including whether a first move can create a competitive advantage. It is however noted by Thompson et al. (2007) that this does not create sustainable competitive advantage

because second comers often perfect the product and erode the advantage earlier enjoyed by the pioneers. Specifically, sales and profits are enjoyed at an average period of 5 years, which is the reason why firm executives should develop thorough strategies that enhance performance of the firm in the competitive environment.

The concept of competition pointed out by Reuer (2004) is gaining popularity among firms in a bid to improve efficiency. This is through joint ventures, strategic alliances and organizational networks that enable an organization to avoid duplication of resources. However, cooperation exposes the firm to certain risks including loss of control over key operations and potential exploitive behaviours by partners. Therefore, focusing on competition with other firms avoid such risks and enables a firm to be innovative and efficiently manage resources.

Pearce et al. (2003) note that the application by organizations of concepts such as strategic fit between resources and opportunities, generic strategies low cost versus differentiation versus focus and the strategy hierarchy of planning goals, strategies, and tactics often abets the process of competitive decline. There are two contrasting models of strategy which are meant to entrench a competitive advantage over firm's rivals: one is for maintaining strategic fit while the other focuses on leveraging resources. The two are not mutually exclusive, but they represent a significant difference in emphasis that deeply affects how competitive battles get played out over time.

Porter (1998) acknowledged that both models recognize the problem of competing in a hostile environment with limited resources, but while the emphasis in the first is on trimming ambitions to match available resources, the emphasis in the second is on leveraging resources to reach seemingly unattainable goals. Both models recognize that relative competitive advantage determines relative profitability. The first emphasizes the search for advantages that are inherently sustainable; the second highlights the need to accelerate organizational learning to outpace competitors in building new advantages.

Porter (1980) suggested that there are three types of competitive advantages through strategic positioning a company can own: low cost, differentiation and focus. The domination through costs strategy is specific to organizations which produce and sell standardized products. The aimed market is vast, with numerous segments. Adopting this strategy implies intensifying the investments, which afterwards implies a productivity growth, a better organization of the production processes, rationalizing the products gamut, and so on. This strategy is generally used by organizations with a big financial power.

The domination through differentiation strategy is adopted by organizations which offer strongly individualized products. This strategy gives the organization a domination power exactly because of the uniqueness of the product's characteristics or services. It also implies a growing attention to maintain this advantage in front of the competitors (Boyne, 2001). The focusing strategy implies the firm to concentrate over a narrow market segment on which they will try to obtain superior advantages from the ones obtained by the industry in its ensemble, by optimizing the differentiating cost. This strategy is generally adopted by small and medium

companies, in order to avoid direct confrontation with stronger competitors.

Research hypothesis

H: Competitive strategies have significant influence on the performance of Kenyan State Corporations.

3. METHODS

The study population were all Kenyan state corporations. As at January 30th 2015 there were 147 Kenyan State Corporations across all the ministries (GoK, 2015). These corporations are classified into: revenue collection; cultural and social services; development or promotional agencies; commercial; regulatory; educational, professional; and research institutions.

The study used primary data which was largely qualitative, quantitative and descriptive in nature. The questionnaire was designed to solicit data on competitive strategies, and organizational performance this was administered to the top managers of the parastatals mainly the CEOs and their assistants.

4. RESULTS

Competitive Strategies and Organizational Performance

The influence of competitive strategies (cost leadership, differentiation and focus) on the performance of Kenyan state corporations was established through the following hypothesis:

H: *Competitive strategies have significant influence on the performance of Kenyan state corporations*.

This hypothesis was tested using a multiple linear regression model where the values of performance were regressed on the values of each of the three competitive strategies. The results are presented in Table 1.

Table 1: Regression Results for Effect of Competitive Strategies on Performance

a) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.494[a]	.244	.198	.52833

a. Predictors: (Constant), Cost leadership, Differentiation, Focus

b) ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.414	3	1.471	5.271	.003[b]
	Residual	13.677	49	.279		
	Total	18.091	52			

a. Dependent Variable: Organizational performance

b. Predictors: (Constant), Cost leadership, Differentiation, Focus

c) Individual coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

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1	(Constant)	220.527	15.144		14.562	.000
	Cost leadership	.090	.516	.019	.175	.861
	Differentiation	-1.080	.684	-.174	-1.579	.117
	Focus	1.531	.712	.219	2.151	.033
a. Dependent Variable: Organizational performance						

d) Combined coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.951	.763		1.247	.218
	Competitive strategies	.787	.243	.416	3.236	.003
a. Dependent Variable: Organizational performance						

As shown in Table 1 (a) correlation coefficient (R=0.494)isan indication of relatively moderate or average relationship between competitive strategies and performance. The coefficient of determination was significant (R^2= .244, F=5.271, p<0.05). Competitive strategies explained 24.4% of the performance of Kenyan state corporations. The other unknown variables explained the remaining 75.6%.

The analysis from the model had the F value of 5.271 with p-value<0.05.The findings as reported above provided support for the idea of the influence of competitive strategies, implying that competitive strategies had statistically significant effect on the performanceof Kenyan State Corporations.Thus the hypothesis was accepted. The results of the joint effect of competitive strategies showed that a unit increase in competitive strategies causes a .787 (78.7%) increase in the performance of Kenyan State Corporations. Further, on individual effects of the competitive strategies manifestations, a unit increase in cost leadership resulted in 0.090 increase in performance. A unit increase in differentiation results in 1.080 decrease in performance. Similarly, a unit increase in focus leads to 1.531 increase in performance. Based on p-values of individual predictors, cost leadership (t value = 0.175, p-value = 0.861), differentiation (t-value = -1.579, p-value = 0.117) and focus (t-value = 2.151, p-value = 0.033); it is clear thatonlyfocus was a significant predictor since it's corresponding p-value is less than 0.05, whereas cost leadership and differentiation were not significant predictors since their corresponding p-values were above 0.05.

The findings are supported by differences in the mean scores and coefficient of variation for the three competitive strategies namely: focus, cost leadership and differentiation focus led with an overall mean of 4.058 and coefficient of variation of 19%. It is followed by differentiation with a mean of 3.795 and coefficient of variation of 22% and lastly cost leadership with a mean of 3.385 and coefficient of variation of 23%.

Clearly, focus strategy had the highest mean and lowest variability, which appear to have contributed to the higher level of betacoefficient observed in the regression output. However, the influence of focus strategy appeared to have declined in the presence of the two other strategies.

Based on regression coefficients results in Table 1 the regression equation can be written as follows:

$Y = 220.527 + 0.090X_1 - 1.080X_2 + 1.531 X_3$, where Y = Performance of Kenyan State Corporations, X_1= Cost Leadership, X_2 = Differentiation, X_3 = Focus.

5. CONCLUSION

The results showed that competitive strategies had a moderate but positive relationship with performance whichwas statistically significant. The individual contribution of each of the variables defining competitive strategy on performance gave mixed results. The results indicate that cost leadership positively influenced performance but the influence was moderately and statistically significant. Differentiation on the other hand had negative influence although it was not significant. Focus had positive effect onperformance and was statistically significant. Differentiation strategy is aimed at the broad market that involves creation of a product or service that a perceived throughout its industry as unique. This implies that Kenyan State Corporations have not fully embraced differentiation in terms of design, brand image, technology, features, dealer network, or customers' service. However, Kenyan State Corporations have embraced cost leadership and focus that enable them offer goods and services at a lower price than private organizations. The findings supports the empirical literature of Porter, (1988) who argued that low costs permit the corporations to sell relatively standardized products that offer features acceptable to many customers at the lowest competitive price and such low prices lead to competitive advantage and increase in market share.

From the findings, positive effects were reported for cost leadership and focus but a negative effect was reported on differentiation. This negative change could be attributed to the fact that most State Corporations do not apply differentiation strategy and the fact that private competitors produce same goods and services to the public in a better way. The combined effect of competitive strategies on organizational performance was also tested and the results presented. Results of the study showed a relatively moderate or average relationship. The findings were sufficient to support influence of competitive strategies, implying that competitive strategies had statistically significant effects on organizational performance.

In an effort to improve organizations profitability, and the overall performance, Barney (1986) notes that managers continuously make decision whether to launch new strategic initiatives as well as how to respond or counter other competitors' moves. He however points out that managers are able to make more effective decisions if they fully understand the firm's competitive environment.

6. Implications of the Study

Implications of the study were discussed in respect to theory, managerial practice and methodology.

6.1 Implications for Theory

The study had implications on Resource Based view theory which emphasizes resource and capabilities as genesis for competitive advantage. In the study, cost leadership manifestations as shown in Table 4.4 shows overall mean of 3.385 meaning high approval rate of the resource utilization, cost reduction, waste cut, innovation and efficiency. Hypothesis one of this study states that competitive strategies have significant influence in the performance of Kenya State Corporations. This means that competitive strategy are applied to manage resources and

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capabilities. This forms the link between the theory and study findings.

6.2 Implications for Managerial Practice

Managerial practice deals with day to day operations and duties or activities in the management of state corporations. As the principal has entrusted the management of the state corporations to the agent.The management on its part takes the responsibility for good performance of the state corporations. The study findings show that competitive strategies (cost leadership, differentiation and focus) will be well interpreted by the management depending on the respective prevailing environment of each state corporation and therefore the best management practice will emanate from the management itself to come with implementation systems of the competitive strategies.

6.3 Implications for Methodology

In the study, the population considered shows that Kenyan State Corporations was divided into different categories like agricultural, regulatory, financial and social. Implication of the study to methodology shows that in order to understand the structure of the state corporations, the classification can used in data collection and analysis.

Validity and reliability tests were carried out on the data collection instruments and it was found that the instrument was sufficient to collect data from the respondents. Regression analysis was used to analyse the relationship between study variables which helped in hypothesis testing in order to achieve the set research objectives.

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