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INFLUENCE OF PORTER'S FIVE MODEL STRATEGY ON THE PERFORMANCE OF THE MANUFACTURING FIRMS IN KENYA: A CASE OF MANUFACTURING FIRMS IN NAIROBI COUNTY

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Abstract: **The general objectives of this project was to evaluate the influence of porter's five model strategy on the performance of the manufacturing firms in Kenya. The study was guided by the following specific objectives: to evaluate the influence of rivalry among existing competitors on the performance of manufacturing firms in Kenya; to find out the influence of threat of new market entrants on the on the performance of manufacturing firms in Kenya; to determine the influence of bargaining power of buyers on the on the performance of manufacturing firms in Kenya and to evaluate the influence of threat of substitute products on the on the performance of manufacturing firms in Kenya. The study used descriptive design because it enhance systematic description that is as accurate, valid and reliable as possible regarding the responses. The study was limited to the manufacturing companies in Kenya. Being an academic study, the period covered was 6 months. This study utilized a sample size of 54 respondents. The researcher used questionnaires and secondary data as the research instrument to gather the relevant information needed related to the study. The study involved use of professionals and experts to test the validity of questionnaire by trying to assess what concept the instrument is trying to measure and the accuracy of representation of the concept under research. The quantitative data was analyzed using descriptive statistics. In addition the study used multiple regression analysis to analyze the data. The study concludes that there is great significance of competitors in benchmarking; keeping the management on toes and increasing efficiency and effectiveness. The study further concludes that the threat of new entrants applies to in the Kenyan manufacturing Industry due to the presence of various competing organizations performing similar roles and offering such products and services at lower rates. This study also concludes that the bargaining power of buyers in the Kenyan manufacturing Industry is critical in terms of understanding the firms' buyers and successfully meeting their demands as a way of retaining them and achieving high customer satisfaction for repeat sales.The study finally concludes that substitute product constrains the ability of firms in an industry to raise prices. Owing to the strong relationship between substitutes and the competitive advantage in the manufacturing Industry in Kenya, the strength and effects of substitutes should not be ignored.**

Keywords: **rivalry among existing competitors, threat of new market entrants, bargaining power of buyers and threat of substitute products.**

1. INTRODUCTION

Prosperous business people are those who can steer their organizations through the turbulent environment, and do it better than competition. Though easy in theory, in practice, it is not easy to do (Rhim & Cooper, 2005). Many competitive industries are very difficult to penetrate, despite all the techniques that may be available to utilize. Any firm that is seeking success has to look at the competition, and likewise, be aware of ways in which competition affects its strategies. A method of analyzing competition is by doing industry analysis. Porter (1980) analyzed the forces influencing competitiveness in an industry and the elements of industry structure. He derived that the foundations of industry structure are bargaining power of buyers, bargaining power of suppliers, threat of new entrants and the threat of substitute products.

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Statement of the Problem:

To remain competitive organizations are trying to outdo each other to improve on processes, market share, customer retention and loyalty by striving to improve on processes, product reliability and performance by addressing all aspects of service quality that give customer utmost satisfaction. Due to the fact that some manufacturing SMEs offer similar products, competition in the manufacturing industry becomes focal point for industry control (Langdon, 2000).According to Kenya National Bureau of Statistics, (2017) manufacturing industry is one of the most competitive industries in Kenya today. This is due to the emergence of different innovations products in the industry.

According to Kotler and Kevin (2009) building a strong brand require a keen understanding of competitors as competition grows more intense every year. New competition comes from all directions, from global competition seeking cost efficient ways to expand market, from private labels and store brands designed to provide low-price alternatives and from brand extensions, from strong mega brands leveraging their strengths to more into new categories. In order to remain competitive manufacturing firms in Kenya over the years have structured their products to suite the market needs.

We have also had several manufacturing firms exit the market: Colgate Palmolive ceased manufacturing in Kenya in 2006. It tendered out its plant after a review of its marketing and distribution operations. Reckitt Benckiser, a home and personal care giant, closed its manufacturing plant in Kenya and contracted Orbit Chemical Industries Ltd to produce its household brands such as Jik, Dettol and Harpic. On May 30, 2014, Tata Chemicals Magadi announced that it was scaling down operations by closing down its main factory, leaving more than 200 permanent workers jobless.In 2010, Cadbury shuts its chocolate division in Kenya;In 2014,47-year-old Eveready East Africa, the biggest dry-cell battery maker in the region, shut its Nakuru factory. Indeed, blaming high production costs, Reckitt & Benkiser, Procter & Gamble, Bridgestone, Colgate Palmolive, Johnson & Johnson and Unilever have all relocated or restructured their operations.

Studies on strategies adopted in response to performance have been conducted in Kenya. These studies include, competitive strategies applied by cement manufacturing firms in Kenya by Obiero (2008), intensive growth strategies adopted by Total Kenya Limited in response to competition in the oil industry in Kenya by Midwa (2008), competitive strategies adopted by LPG marketers in Kenya to cope with competition by Njoroge, (2006) and strategic responses of petroleum firms in Kenya to challenges of increased competition in the industry by Chepkwony, (2001).

The above studies have addressed various topics in this industry and in regard to strategy but none had done the adoption of Porters Five by manufacturing firms in Kenya to gain competitive advantage. Furthermore most of the previous studies undertaken on this subject use secondary data; this means that they did not describe the situation as it is in the Kenyan manufacturing sector. This necessitates studies such as this current one. Therefore, this study intends to establish the influence of Porters Five model strategy on the performance of manufacturing firms in Kenya

Objectives:

a) To evaluate the influence of rivalry among existing competitors on the performance of manufacturing firms in Kenya.

b) To find out the influence of threat of new market entrants on the on the performance of manufacturing firms in Kenya.

c) To determine the influence of bargaining power of buyers on the on the performance of manufacturing firms in Kenya.

d) To evaluate the influence of threat of substitute products on the on the performance of manufacturing firms in Kenya.

2. THEORETICAL REVIEW

Michael Porter Five Force Model:

Porter's Five Forces Analysis is an important tool for assessing the potential for profitability in an industry. With a little adaptation, it is also useful as a way of assessing the balance of power in more general situations. This tool was created by Harvard Business School professor, Michael Porter, to analyze the attractiveness and likely-profitability of an industry. The Porter's 5 Forces tool is a simple but powerful tool for understanding where power lies in a business situation. This is useful, because it helps you understand both the strength of your current competitive position, and the strength of a position you're considering moving into. With a clear understanding of where power lies, you can take fair advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps.

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Resource Based Theory:

Warnier, Weppe and Lecocq (2013) discusses that Resource Based Theory (RBT) is based on earlier studies, notably the work of Penrose (1959) among others, and has been developed in work of Wernerfelt (1984) which is regularly cited in research asserting a resources approach. For Penrose, the essence of the firm is strongly linked to the concept of resources since she defines it as “a collection of productive resources, where the choice of different uses of these resources over time is determined by administrative decision” (Penrose, 1959). While the work of Penrose (1959) concerning the growth of the firm considers all resources (productive and administrative) globally, research in strategic management has then mainly focused on a certain type of resources, that is, strategic resources. The heterogeneous nature of resources and their uneven distribution between competing firms is one of the cornerstones of RBT as it helps to explain competitive advantage (Peteraf, 1993). However, the concept of heterogeneity is defined in a restrictive way since, in the end, only strategic resources are taken into consideration in the analysis: “it signifies, simply, that strategic resources are distributed unevenly across firms, or that different firms possess different bundles of strategically relevant resources” (Peteraf & Barney, 2003).

The Profit-Maximizing Theory:

This theory is based on the notion that business organization main objective is to maximize long term profit and developing sustainable competitive advantage over competitive rivals in the external market place. The industrial-organization (I/O) perspective is the basis of this theory as it views the organization external market positioning as the critical factor for attaining and sustaining competitive advantage, or in other words, the traditional I/O perspective offered strategic management a systematic model for assessing competition within an industry (Porter, 1981). The theory of competitive advantage is derived from an understanding of the rules of competition that govern an industry and determine its attractiveness. The ultimate goal of competitive strategy is to influence those rules in one’s own company’s favor. This theory helps the study in presenting the different competitive forces that bears down on a business (Hall & Hitch, 1939).

Conceptual framework

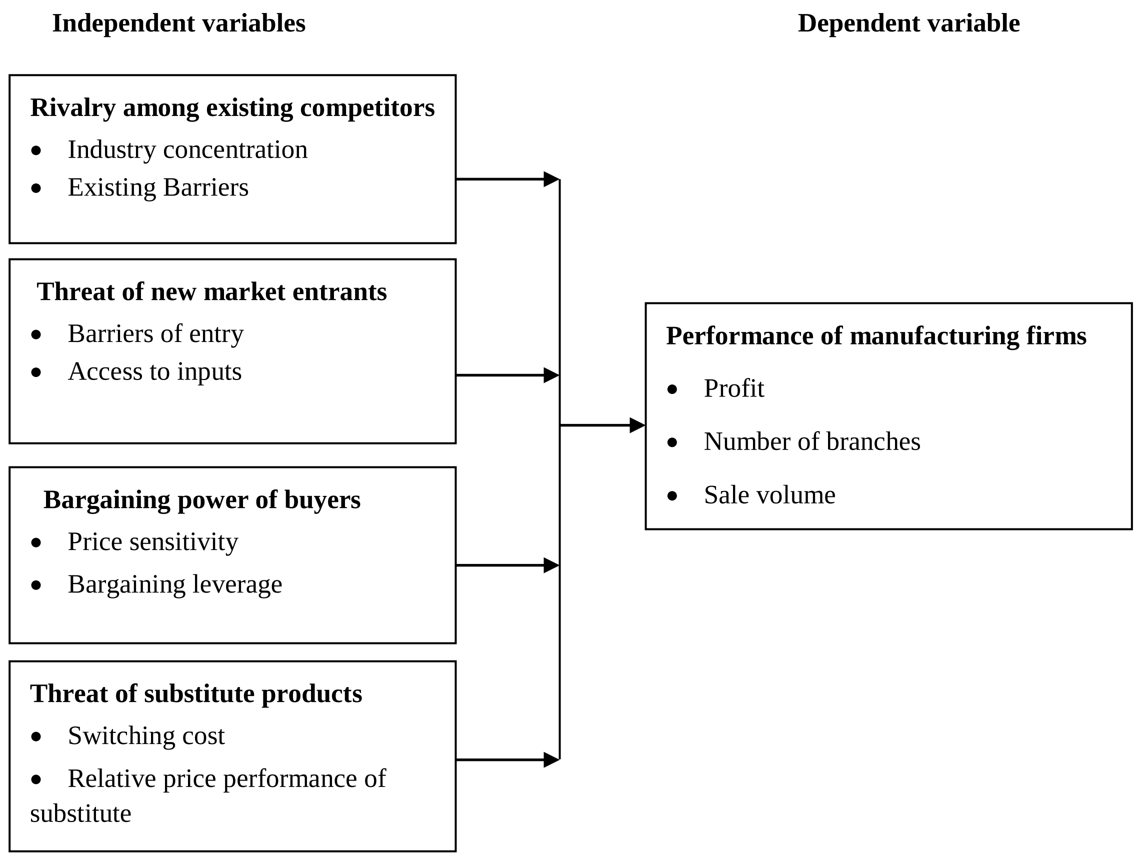

Figure 2.1: Conceptual framework

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Critique of Literature Reviewed:

The critics lament that that Porter (1979) has no justification for the choice of the five environmental forces, which prove the validity of his choice. A further criticism is that the model only generates snap-shots. According to Thyrlby (1998), the Five Forces model of Porter is static and does not take account of time. Thus it is much more difficult to determine markets with higher competition dynamic because they can change very quickly. Furthermore making use of the Five Forces framework does not guarantee a competitive advantage that is inviolable and sustained (Aktouf, 2004). The reason for this lies in the fact that Five Forces framework is a static model, which does not include consistently changes of the competitive environment (Karagiannopoulos, et al., 2005). According to Hill and Jones (2008), Industry factors are able to justify business performance variations. Those factors can only motivate 20 per cent of the variations in terms of market share, growth and industry profitability (Grant, 2011).

Summary of Literature:

From the reviewed literature it is clear that much research has been undertaken relate to the general aspects of competitiveness in industries from the general perspective. They have not focused on these five factors in this proposed study and also do not focus on competitiveness in the beer industry. The studies seem to have concentrated more on competition and competitive advantage and profitability

Research Gap:

This chapter has explicitly dealt with a review of literature. In particular the chapter concentrated on theoretical framework, conceptual framework, factors that influence competitiveness existing competitive rivalry between suppliers, threat of new market entrants, bargaining power of buyers, power of suppliers, threat of substitute products how competitiveness is measured in this study. The central issue, which is the subject of study, is the competitiveness of the manufacturing industry. The methodology of how this study is carried out is discussed in chapter three

3. RESEARCH METHODOLOGY

The research design used in this study was descriptive research design. The manufacturing companies that will be included in this study will consist of those that were listed in the Kenya Association of Manufacturers (KAM) directory 2016 and are strictly manufacturers. Thus one hundred and eighty one registered companies will made the target population. The study will target a sample of 54 manufacturing firms. The data collection instrument for this study was a questionnaire. The questionnaire had both open ended questions and a Likert Scale on some questions. The questionnaire was pre-tested with a small representative sample aimed at identifying potential misunderstandings or biasing effects for various questions. The data was coded and thereafter analyzed using descriptive statistics (mainly percentages, mean, variance and standard deviations) and inferential statistics (mainly linear regression models) with the aid of Statistical Package for Social Sciences (SPSS) program and presented using appropriate tables to give a clear picture of the research findings at a glance. A multiple linear regression analysis was performed to test the effect of the independent variables on the dependent variable

Model:

The model was specified as follows: $Y=\beta_0+\beta_{1X1}+\beta_{2X2}+\beta_{3X3}+\beta_{4X4}+\varepsilon$

Where,

Y= Performance of manufacturing firms in Kenya

X_1: Rivalry among existing competitors

X_2: Threat of new market entrants

X_3: Bargaining power of buyers

X_4: Threat of substitute products

α= constant

β=coefficient

ε= error term

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4. REGRESSION RESULTS

Table 4.1: Regression coefficients of the relationship between competitiveness of the Kenyan beer industry *and* the five predictive variables

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig
1	(Constant)	1.054	0.215		4.86	0.000274
	Rivalry	0.684	0.140	0.612	4.57	0.000904
	New entrants	0.700	0.180	0.148	3.88	0.000150
	Bargaining power of buyers	0.570	0.195	0.235	3.07	0.00025
	Substitute products	0.761	0.090	0.137	8.30	0.000183

As per Table 4.1, the equation ($Y = \beta 0 + 0.684X_1 + 0.700X_2 + 0.570X_3 + 0.763X_4 + 0.780X_5 + \varepsilon$)

becomes:$Y = 1.053 + 0.684X_1 + 0.700X_2 + 0.570X_3 + 0.763X_4 + \varepsilon$)

Where Y is the dependent variable the competitiveness of the Kenyan manufacturing firms

X1 – Rivalry among existing competitors

X2 - Threat of new market entrants

X3 - Bargaining power of buyers

X4- Threat of substitute products

The regression equation above has established that taking all factors into account (Rivalry among existing competitors, Threat of new market entrants, bargaining power of buyers, and Threat of substitute products) constant at zero competitiveness of the Kenyan manufacturing firms **will** be 1.054.

The findings presented also show that taking all other independent variables at zero, a unit increase in the rivalry among existing competitors would lead to a 0.684 increase in the scores of competitiveness of the Kenyan manufacturing firms**.**. Conversely, competition on services or features can allow industry competitors to support good margins. Firm's uses tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs when competitors sense the pressure or act on an opportunity to improve their position. This becomes a competitive struggle between companies in an industry to gain market share from each other, this is according to (Porter, 2005).

Also, a unit increase in the scores of threat of new market entrants would lead to a 0.700 increase in the scores of competitiveness of the Kenyan manufacturing firms **.**According to the key informants, threat of new entrants are determined by barriers to entry which include economies of scale which include size and scope of operations required to achieve viable cost structure; product differentiation, switching costs and customer loyalty created by quality, reliability and brand image; capital requirements which involve size of cash and financial resources required to establish and run a business; cost disadvantages independent of scale as opposed to advantages held by existing competitors such as location, patents and experience; access to distribution channels which include means to reach customers; government policy such as licensing, subsidies or tax incentives; and expected retaliation from existing competitors which are determined by current rivalry, history of vigorous retaliation and strengths of incumbents

Further, the findings shows that a unit increases in the scores of bargaining power of buyers would lead to a 0.570 increase in the scores of competitiveness of the Kenyan manufacturing firms **.**With regards to Bargaining Power of Buyers, buyer bargaining leverage, buyer information availability, availability of substitute products, buyer dependence on existing distribution channels and buyer price sensitivity all have a high impact and influence the competitive advantage of the multinational firms in the beverage industry in Kenya.

Finally, the study found that a unit increase in the scores of threat of substitute products would lead to a 0.763 desirability of competitive advantage of Kenyan manufacturing firms.All firms within an industry compete with industries producing substitute's products and services. Substitutes limit the potential returns of an industry by placing a ceiling on the prices that firms in that industry can profitably charge. The products/services of different industries can satisfy the similar

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customer needs, so a customer chooses the products he/she prefers and this increases competition in the Industry. In emerging economies, for example, the surge in demand for wired telephone lines has been capped as many consumers have opted to make a mobile telephone their first and only phone line.

Overall; threat of substitute products had the greatest effect on the competitive advantage of Kenyan manufacturing industry followed by, threat of new market entrants, rivalry among existing competitors while bargaining power of buyers while Legislation had the least effect to the competitive advantage of Kenyan manufacturing industry. All the variables were significant ($p<0.05$).

5. CONCLUSION

The study concludes that there is great significance of competitors in benchmarking; keeping the management on toes and increasing efficiency and effectiveness. Competitors remain the key to success and achievement of competitive edge through innovation. The study also concludes that the threat of new entrants applies to in the Kenyan manufacturing Industry due to the presence of various competing organizations performing similar roles and offering such products and services at lower rates. This study further concludes that the bargaining power of buyers in the Kenyan manufacturing Industry is critical in terms of understanding the firms' buyers and successfully meeting their demands as a way of retaining them and achieving high customer satisfaction for repeat sales. Finally, the study concludes that substitute product constrains the ability of firms in an industry to raise prices.

6. RECOMMENDATIONS

This study recommends that firms in the Kenyan manufacturing Industry should always consider how new technology advancement is going to improve on the products offered and their prices before making the strategic decision of adopting it for their operations. In response to the increasing number and strength of competitors this study recommends that the multinational firms in the Kenyan manufacturing Industry should increase their product diversity and customize its products in a way that suits and retains the already existing customers as well as increase quality, efficiency and effectiveness in product delivery. As a way of maintaining high quality services and good working environment, this study recommends that firms in the Kenyan manufacturing Industry should engage in innovation through technological development which will impact the quality of products sold through buyers and has a positive impact on return on assets, favorable/attractive product prices create value to the customers who purchase the organizations products delivering persistent profits. The study finally recommends that since substitutes are posing challenges to the firms' products, the Kenyan manufacturing Industry should research and understand the growing health trend of its consumers and innovate appropriately, realize the world is becoming a global village and adapt by taking advantage of the growing middle class through dynamic product propositions.

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