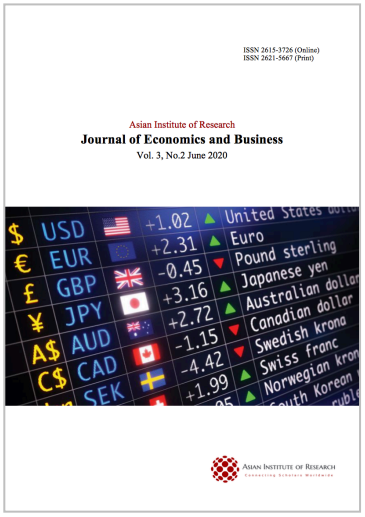

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Influence of Cost Strategy on Firm Performance

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Abstract
In today's complex and dynamic environment firm competitiveness is inevitable. This means therefore, that for better positioning and to remain ahead of rivals, firms can pursue suitable strategies especially being a cost leader. Empirical studies show that cost strategies influence competitiveness and growth of a firm (Tehrani, 2003). This study sought to determine the influence of cost strategy on the performance of manufacturing firms in Kenya. According to Porter (1995) firms that pursue cost leadership can achieve better competitive advantage leading to improved performance. Additionally, he asserts that firms are able to defend their market since lower cost can enable them earn better returns. Firms that adopt cost strategy, therefore, endeavor to lower cost in terms of production in the industry. The study utilized Porter's (1980) framework with the foundation of Dynamic capability theory by David Teece & Gary Pisano in 1994 and stakeholders theory(Harrison, Bosse & Phillips, 2010) and goal setting theory by Locke & Latham (2006). The study adopted cross sectional descriptive survey, guided by positivist philosophy. This is because the study intended to observe a phenomenon and report it as it is. The study aimed to study all large manufacturers in Kenya. Data was collected using a structured questionnaire. Through use of percentages, mean scores and standard deviation the data was described. Regression analysis was used to test the hypothesis. The study found that cost strategy had a significant influence on the performance of manufacturing firms in Kenya.

Keywords: Cost Strategy, Customer, Manufacturing Industry in Kenya

Introduction

Cost Strategy on Firm Performance

Cost strategy is a vital strategy to any firm regardless of size or sector while developing its foundation to attaining competitive advantage. Porter (1985) asserts that those firms that are able to lead in costs need to control their expenditure tightly and refrain from incurring too many expenses when producing and selling their products. The foundation of this study is dynamic capability by Teece (2012) and stakeholders' theories and goal setting theories. When an organization chooses cost leadership as strategy it's able to achieve a significant advantage in performance (Power & Hahn, 2004). Similar results were found by Allen and Helms (2004) that cost leadership related to better performance of firm. Dee and David (1984) acknowledged that, overall being a cost leader assisted the firm to achieve the maximum return on assets. Empirical evidence infers that cost leadership significantly influence performance of manufacturing firms in Kenya. Manufacturing firms should,

therefore, deepen on the way they engage into more cost effective methods of running their businesses. From this discussion cost leadership can significantly influence the performance of firms.

Research Methodology

This study adopted positivistic philosophy because it was seeking to establish gaps through hypothesis then deducing from what the researcher can observe. It also entailed collection of data and finally making comparisons with theories that guided the research. The research design adopted was a cross-sectional descriptive survey. According to Saunders et al., (2009) positivism, allows researchers to detach themselves from any possible interpretation that affects empirically investigated results following structured methods that enable reproduction of the investigation. The study population included all large manufacturing firms' in Kenya. According to KAM directory (2015) a large manufacturer is one that employed more than hundred employees, medium manufacturer employed up to 100 with a turnover of KSh.500M and over. The sub sectors in the manufacturing industry include: timber wood and furniture food and beverages, motor vehicles and accessories, chemical and allied, building, mining and construction, paper and board, pharmaceutical and medical equipment sector plastics and rubber, leather and footwear, timber and wood, furniture, textiles and apparels and fresh produce energy and finally electrical and electronics. 300 firms then fitted the description of a large manufacturer. The study stratified the manufacturing firms of the 13 sub-sectors. This was good since it enabled the study to represent the total population and key sub-sets of the population. Saunders et al. (2009) assert that this technique provides a better assessment across strata reducing standard error while providing some control over variance. Sampling was through randomly choosing the firms allowing equal representation of firms. Kate (2006) formulae were adopted choosing 139 organizations to be studied. A structured questionnaire covering all the research variables was used. It had been established on the previous study foundations. The questionnaire was administered through drop and pick. Cronbach's alpha 0.5 and above were considered ideal for reliability test and where alpha was less than 0.5 was not unacceptable which was in line with (George & Mallery, 2003). Face validity was addressed by involving experts (Saunders et al., 2007). Discriminant validity was confirmed through factor analysis.

There was a pretest of the questionnaire involving five manufacturing firms that were not considered in the final analysis. Graphical methods for linearity testing was utilized by plotting standardized residuals and standardized of the dependent variable in an expectation to show whether a random pattern exists if non, linearity lacked. Normality testing was through probability-probability (p-p plots) and Shapiro-Wilk and Kolmogorov-Smirnov tests and a visual inspection of data plots to determine normality graphically. Data was therefore assumed to be normal when the histogram appeared symmetrical represented by bell-shaped curve, with maximum points in the middle and reduced occurrences to the extremes. Multicollinearity was through VIF (Variance Inflation Factor). The VIF values were not to go beyond 10 and the tolerance values should be higher than 0.10. Correlation analysis and Chi square test were used to establish the independence of association.

Descriptive Data and Results

A total of 72 questionnaires were analyzed representing 52% of the manufacturing firms sampled this similar to Munyoki (2007) who had a response rate of 51% and Machuki (2011) had a response rate of 36%. According to Nachmias and Nachmias (2004) rarely does survey research go above 50% and there was a suggestion that a response rate above 50% being very satisfactory. The study adopted alpha coefficient cut of value of 0.70 and above to measure reliability. All variables had alpha coefficient of above 0.7 hence were considered reliable. All conditions of validity were met. Multicollinearity test was undertaken and there was an indication that all VIF values were within acceptable levels which varied from 1.369 to 1.521. Construct validity was done through factor analysis. All validity conditions were met. Heteroscedasticity was through Levene's test and there was an indication of homogeneity from the results since all the P-values of Levene's test for homogeneity of variances exceeded 0.05.

The influence cost strategy on firm performance

The study determined independently the influence cost strategy on firm performance. This was determined by getting the composite index of cost strategy and performance constructs and applied simple linear regression analysis to determine their significance levels. Consequently, the following sub hypothesis was tested. **H_1:** Cost strategy significantly influences the performance of large manufacturing firms in Kenya**.** The results were as presented in Table 5.1.

Table 5.1: Cost Strategy and Firm Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.563	.317	.308	5.78642	.317	32.541	1	70	.000	1.913

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1089.546	1	1089.546	32.541	.000
	Residual	2343.787	70	33.483		
	Total	3433.333	71			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.663	5.337		1.436	.156
	CS_Cost	1.528	.268	.563	5.704	.000

Source: Primary Data (2019)

The study found a relatively strong relationship between cost strategy and firm performance (R= 0.563). Coefficient of determination (R^2 =0.317) indicates that cost strategy explains 31.7% of the variation in firm performance. Also, the overall model is significant (F=32.541, $p<0.05$). The individual influence of cost strategy significant relationship is further revealed by the t-value in the coefficient table (β=1.528, t=5.704, $p<0.05$). This, therefore, depicts that cost strategy is key in determining firm performance in manufacturing firms in Kenya and thus the hypothesis that cost strategy positively influences firm performance was supported. Based on the outcomes of the results of the regression analysis as presented in Table 5.1, the model became; Y= 1.528 X_1

Where Y was firm performance and X_1 **is** cost strategy. This implies that a unit change in cost strategy results in 1.528 changes in the firm performance of manufacturing firms in Kenya. This implies that the cost strategy significantly influences the performance of large manufacturing firms in Kenya.

The results in this study are consistent with studies previously investigating the impact of cost strategy on firm performance. Porter (2008) can be able to perform a myriad of activities to enable them to deliver products and services quicker, economically than the rivals. Firms that adopt pure cost strategies can end up achieving better returns on investment. Power and Hahn (2004) asserted that cost leadership provided a substantial performance advantage. Similar positive results by Allen and Hems (2006) established that being a cost leader improved performance. Contrary results by Bush and Sinclair (1992) when conducting a study in the hardwood lumber industry revealed that overall cost leadership was not adequate in a mature industry and added that only the firms that combined both cost leadership and differentiation strategy that succeeded. Large Manufacturing firms in Kenya can, therefore, utilize different tactics to achieve leadership in cost. Others ways could include training firm employees on the product and service quality.

Summary, Conclusion and Recommendations

Competition is what is seen to keep firms and also industries to keep goin on. To ensure survial the results of this study show that cost strategies had a significant impact on the performance of manufacturing firms in

Kenya. Results indicate that cost strategy therefore is a unique strategy that can lead to the improved firm performance of firms. These strategies are usually skill based and may involve strategic thinking, being innovative even when executing involving critically thinking and also positioning. According to Porter (1980) a firm can choose to perform various chain of activities to lower their cost than rivals.The study confirms that cost strategy can position firms better and can lead to firms attain superior performance than rivals. Depending on the capabilities of a firm, a firm can figure and reconfigure their abilities to respond to the need of the market which can eventually determine firm success. Manufacturing firms are recommended to adopt cost leadership strategy so that their performance can improve. Policy makers can formulate policies enabling the firms attain competitiveness owing the importance of the sector in Kenya or removing hindrances that make the industry not compete well. To enable manufacturing firms survive the current turbulence, its advisable in practice to pursue cost related strategies to mitigate the changes from the eniviroment.

Limitations of the Study

This scholarly work was a cross sectional study and therefore a further examination to understand the existence of causal reasons or if causality occurred amongst variables is necessary.

Suggestions of the Study

The population of the study was drawn from large manufacturers registered by KAM directory (2015) in Kenya. To generalize the findings, therefore, there is need to consider all sizes of firms and from other developed countries with contextual dissimilarities.

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