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ABSTRACT

Performance is an important factor in firm strategic analysis since it helps in measurement of the competitive position of an organization within industry. Most theoretical literature in strategic management describes performance as outcome of firm's strategic objectives, which are developed and executed at the corporate level of management. The acquisition and utilization of strategic resources has been shown in various empirical studies as determinants to maximise performance. However, extant literature on the role of corporate strategies as driver in the utilization of these firm strategic resources towards superior performance has not been adequately examined. This is so especially in the developing economies, notably sub-Saharan Africa. This paper examines the effect of corporate strategies on performance of manufacturing firms in Nairobi City County, Kenya. The corporate strategies under study were market development, product development and diversification. The authors empirically examine the relationship using survey data from 148 manufacturing firms in Nairobi City County, Kenya. The study findings indicate that corporate strategies have a positive and significant impact on a firm's performance. This study has important implications for managers and policy makers of manufacturing firms on the need of developing and executing corporate strategies within their firms to enhance performance.

Keywords: Corporate strategies, firm performance, manufacturing firms, Nairobi City County

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INTRODUCTION

Manufacturing firms in Africa and especially the Sub-Saharan Africa have been noted to be declining in performance. The World Bank report (2015) explained that in Africa, the manufacturing firms perform below capacity. It was also indicated in the African Development Bank report (AFDB, 2013) that the manufacturing firms in Africa account for small share of GDP which range from 3.8% to 11% compared to industrialized countries which range from 30% to 40%. In Kenya, the AFDB report (2013) indicated that the manufacturing firms have been declining in performance as a source of overall GDP growth. In similar view, the Kenya Strategic Policies for the 21st Century report (2001) explained that the performance of manufacturing started to slowdown in the middle of 1980s.

According to Porter (2008); Kutllovci, Shala and Troni (2012) corporate strategies include the firm intention to maintain its current position; achieve high growth as compared to current achievements or aim at reducing its one or more business operations. Extant theoretical arguments in strategic management posit that firm resources and capabilities are important in determining the nature of strategies to use. Wheelen and Hunger (2008) contend that among the corporate strategies, market development, product development and diversification might be more applicable in an operating environment dominated by scarcity of resources as well as uncertainty of market and consumer behaviour. The context of this study is sub-Saharan Africa that is known to experience challenges in resource availability, distribution and prudent exploitation. The Government of Kenya National Industrialization Policy (2012) explained scarcity of resources and unstable market as key determinants of performance in manufacturing and identified market development, product development and diversification as the core strategies for growing manufacturing in Kenya.

In Kenya, the manufacturing firms are categorized into sub-sectors which are defined by the Kenya Association of Manufacturers based on what they produce. Eighty percent of the country's manufacturing firms tend to be concentrated in the capital city, Nairobi which is well networked with supportive infrastructure. The World Bank report (2015) explained that Kenya's manufacturing firms have the potential to generate higher GDP growth capable of supporting development initiatives. However, Kimuyu (2001) indicated that the firms output was successful in the first two decades following independence, but the performance declined gradually. The Kenya National Bureau of Statistics (KNBS) report (2016) showed that several manufacturing firms have continued to register decline in performance. Further, the KNBS report (2016) explained that manufacturing firms' performance have been at a slower pace with a five years (2012-2016) aggregate growth rate of 3.84%, aggregate output 5.48% and aggregate contribution to GDP growth of 5.2%.

In the 2018-2022 economic development pillars, the government of Kenya has identified manufacturing, affordable housing, food security and universal health coverage as the four pillars to support socio-economic development. To this end, manufacturing firms are important to Kenya since they projected to contribute to the country's GDP through value addition to raw materials, foreign exchange earnings and offering employment. Therefore, the government of Kenya is expanding infrastructure and agricultural production, to support the manufacturing firms. There are other interventions of policy such as the Vision 2030 blueprint that has been developed to transform the country into an industrialized economy by the year 2030. Despite various government interventions, the trend of underperformance by manufacturing firms raise the concern of possible gaps in the strategies that are used by these manufacturing firms. This trend of underperformance

suggests that other than infrastructure support and enhanced agricultural production, firms might require corporate strategies to predict and explain the established behaviour within their environments to remain competitive and enhance performance.

LITERATURE REVIEW

Theoretically, various authors advance different propositions of firm performance based on the theory adopted in describing performance. The Resource Based View (RBV) theory was adopted in this study to describe performance of manufacturing firms. The RBV of the firm suggests that the firm resources and core competencies fundamentally determine its strategies (Pearce & Robinson, 2007). According to Peteraf and Bergen (2003); Hodgson (2008) for a firm to arrive at a better determined corporate strategy, it is important to conceive its resources as capacities towards superior performance. On his part, Leiblein (2003) argued that the RBV contemplates how firm resources are allocated and deployed in corporate strategy. Therefore, firm corporate strategies can be established by focusing on integration of firm strategic resources and capabilities (Furrer, Thomas & Goussevskaia (2008).

In reviewing RBV and firm performance, Eisenhardt and Martin's (2000) argue that the purpose of corporate strategy is to manipulate strategic resources and core competencies into new configurations to acquire and sustain superior firm performance among industry competitors. Thus, as far as RBV is concerned, firms have to determine the correct corporate strategies based on strategic resources and core competencies, with the assumption that the future value of firm resource is asymmetrically distributed (Newbert, 2007; Lockett, Thompson & Morgenstern, 2009). In most strategic management studies, the concept of firm performance has been addressed based on the outcome of relationship between three broad factors such as firm strategies (Mazdeh, Moradi & Mazdeh, 2011); competitive advantage (Hosseini & Sheikh,

2012); and business environment (Tan & Liu, 2014). According to Pasanen (2003) performance is often described as outcome of firm's corporate strategies that are associated with long term financial and non-financial objectives. In measuring the firm financial performance, Yurdakul (2005); Samson and Ford (2000) explained that net profit and return on assets (ROA) are important indicators that might be considered. On the other hand, Hawawini, Subramanian and Verdin (2003) indicated that non-financial indicators of sales growth and customer retention might also be used in firm performance measurement.

In explaining the effect of corporate strategies on performance, several empirical studies have been conducted and findings documented. Kittichai and Phapruek (2010) showed that market development strategy impacted positively on performance of garment manufacturing industry in Thailand. Faria and Wellington (2005) found that market development strategy determined performance of firms in USA gaming industry. Yuan, Feng and Liu (2006) showed that market development strategy significantly affected performance of manufacturing firms in China. Isidre, Gunasekaranb and Begoña (2002) found that product development strategy significantly affected performance of manufacturing firms in Spain. Amue and Adiele (2012) showed that product development strategy significantly affected performance of electronic manufacturing firms in Nigeria. Kavale, Mugambi and Namusonge (2016) found that product development strategy significantly affected performance of Microfinance Institutions (MFIs) in Kenya.

A study by Iwona and Bielawska (2010) showed that diversification strategy had positive effect on manufacturing firms in Poland. Chia, Wen and Heng, (2008) found positive relationship between diversification strategy and performance of Taiwan manufacturing firms. Lee, Hall and Rutherford (2003) showed positive effect of diversification strategy on

Korea manufacturing firms. Manufacturing firms listed in the Tunisian stock exchange were found to

be positively affected by diversification strategy in a study by Ezzi and Jarbouï (2015).

Conceptual Framework

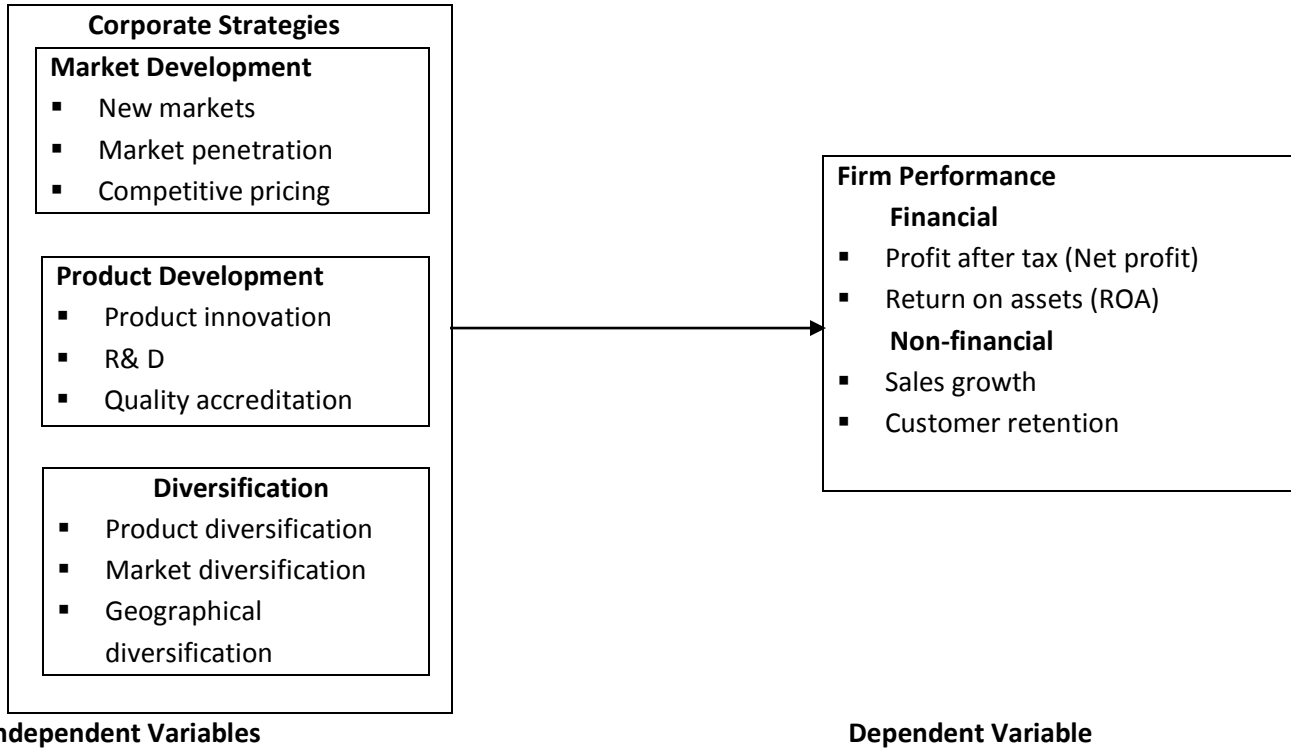


Figure 1: A Model linking Corporate Strategies and Performance of Manufacturing Firms
Source: Author (2019)

Whereas the corporate strategies of a firm are varied, there is a consensus among scholars of strategic management that corporate strategies are important determinants of firm performance. The corporate strategies intention is to direct the firm business towards the attainment of its long-term objectives, maintain its current position or achieve high performance as compared to current achievements (Porter, 2008; Kutllovcı, Shala & Troni, 2012; Pearce & Robinson, 2013). Consequently, firms are expected to determine specific corporate strategies that are fit for purpose of enhancing superior performance. In addition, firm corporate strategies fail because they do not adequately analyse firm’s strategic resources and capabilities before determining the right strategies in specific market conditions in which the

firm operates. Therefore, this study proposes the following hypothesis:

H₀₁ : Corporate strategies have no significant effect on performance of manufacturing firms in Nairobi City County, Kenya.

METHODOLOGY

The study adopted both descriptive and explanatory survey design as recommended by Sekaran and Bougie (2009). According to Njuguna, Munywoki and Kibera (2014) the descriptive and explanatory survey designs enable studies to test hypotheses quantitatively. This design enabled the researcher to capture the study population's characteristics in their natural situation. From the conceptual framework,

firm performance is a function of composite variable corporate strategies whose components are market development, product development and diversification. Hence;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where;

β_0 = Constant (intercept)

β_1, β_2 and β_3 = Beta coefficients of independent variable

X_1 = Market development strategy

X_2 = Product development strategy

X_3 = Diversification strategy

ε = Error term

The population of this study was 373 manufacturing firms based in Nairobi City County, Kenya categorised as large by the Kenya Association of Manufacturers. The study determined the sample size by use of multi-stage sampling method as recommended by Shapiro, Carlson, Astin, and Freedman (2006). The steps of determining sample size was proportionate stratified sampling defined by sub-sector, and then a simple random sampling to select specific firms to participate in the study. A sample size of 189 firms was used in the current study which was arrived at using the formula suggested by Fisher, Laing and Stoeckel (1985) as follows:

$$n = \frac{Z^2 \alpha / 2}{d^2} \quad n = \frac{(1.96)^2 (0.50) (0.50)}{(0.05)^2} = \mathbf{384}$$

$$n_f = \frac{N}{1 + n/N} \quad n_f = \frac{384}{1 + (384/373)} = \mathbf{189}$$

Where:

n_f = is the desired sample size (when the population is less than 10,000).

N = the Population (in this case 373 firms).

n = the desired sample size (if the target population is greater than 10,000)

z = the degree of confidence (in this case 95% confidence interval, $\alpha=1.96$)

p = the proportion in the target population estimated to have characteristics being measured. 50% chosen as recommended by Fisher *et al.*, (1985)

d = the level of statistical significance (set at 5%).

The study then stratified the sample size of 189 among different manufacturing sectors using proportionate sampling based on the population of each sector. The study obtained primary data from the chief executive officer/managing director or director of each selected firm by the use of a semi-structured questionnaire.

RESULTS

The validity and reliability of the study measurements were assessed before survey data was analysed. The instrument was subjected to a panel of experts to determine the content validity. Confirmatory factor analysis (CFA) was used to investigate construct validity of the instrument as recommended by Patton (2002). The research instrument had adequate construct validity since all the items had Eigen values greater than 1.0 and loadings greater than 0.4 as recommended by Rahim and Magner (2005). A pilot study using 20 respondents who were part of the study population was done to test for reliability of research instrument. Cronbach's Alpha for all the variables were found to be above 0.7 threshold, as recommended by Sekaran and Bougie (2009). The study targeted 189 large manufacturing firms where 41 were not responded to, while 148 were properly filled and returned thus translating to a response rate of 78.30%.

Descriptive Analysis

Table 1: Firm Background Characteristics

Category	Sub-Category	Frequency	Percentage
Age of the firm(Years)	21-30	20	13.5
	41 to 50	86	57.8
	Above 50	22	28.7
	Total	148	100
Size of the firm (Assets Value)	Above Kshs. 100 Million	148	100
	Total	148	100

Source: Survey data (2018)

Based on research findings presented in Table 1, eighty six firms (57.8%) had been in existence for a period between 41 and 50 years, more than 50 years were twenty two (28.7%), twenty firms (13.5%) were found to have existed for a period between 21-30 years. The respondents indicated that all the manufacturing firms were large under classification by Kenya Association of Manufacturers (KAM). This

finding was not unusual since according to KAM, large firms have been in existence for long period to achieve annual turnover of \$100M, thus; more likely to sustain operations by dominating production and market shares, at the same time attracting investors for capital injection based on the perception that large firms are more profitable.

Table 2: Corporate Strategies

Variable	Mean	Standard Deviation
Market Development Strategy	3.67	1.04
Product Development Strategy	3.66	1.07
Diversification Strategy	3.59	1.08
Aggregate	3.64	1.06

Source: Survey data (2018)

The findings in Table 2 showed that market development strategy was the most practised by the manufacturing firms with a mean of 3.67 and standard deviation of 1.04, followed by product development strategy with a mean of 3.66 and standard deviation of 1.07, and least used was diversification strategy at a mean of 3.59 and standard deviation of 1.08.

Diagnostic Tests

Several diagnostic tests were done before hypothesis testing. The Keiser-Meyer-Olkin (KMO) was used to measure sampling adequacy, which obtained values greater than 0.5 as recommended by Malhotra and Dash (2011). Confirmatory factor analysis which used

communalities and Eigen values was used to test for variable correlations, obtaining values that exceeded 0.4 meaning that no variables were highly correlated as recommended by Rahim and Magna (2005). The study found that all variables met normality threshold of values between -0.1 and + 0.1 using Shapiro–Wilk test as recommended by Myoung (2008). The Pearson’s correlation coefficients for all the independent variables were positive indicating positive linear relationship between individual independent variables and the dependent variable as recommended by Field (2009). There was no multicollinearity since tolerance values for all variables were above 0.10 and VIF values of below 10 as recommended by Field (2009). The test of

homogeneity by use of Levene's test of homogeneity revealed the p-values for the three predictor variables were greater than the level of significance at .05 implying no homoscedasticity as recommended by Warner (2008).

Hypothesis Testing

The hypothesis that was tested stated that corporate strategies have no significant effect on performance

of manufacturing firms in Nairobi City County, Kenya. The hypothesis was tested using regression model. Corporate strategies (predictor variable) were regressed against firm performance (dependent variable). To evaluate the effect of corporate strategies on performance, a model summary of the coefficient of determination was developed, and presented in Table 3.

Table 3: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.697	0.486	0.475	0.26397
Predictors: (Constant), Diversification Strategy, Product Development Strategy, Market Development Strategy			

Source: Survey data (2018)

Findings in Table 3 showed an adjusted R-square value of 0.475, which meant that 47.5% of variation in firm performance can be explained by the three predictors that formed independent variable. The predictors were market development strategy, product development strategy and diversification

strategy. The findings were consistent with the argument by Porter (2008) as well as the findings of a study by Kutllovci, Shala and Troni (2012) which indicated that corporate strategies positively influences firm performance. The findings for the ANOVA (Model fitness) are presented in Table 4.

Table 4: ANOVA Results

	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.492	3	3.164	45.406	.000
Residual	10.034	144	0.07		
Total	19.526	147			
Dependent Variable: Performance					
Predictors: (Constant), Diversification Strategy, Product Development Strategy, Market Development Strategy					

Source: Survey data (2018)

The results in Table 4 on the amalgamated analysis of variance reveal an F statistic value of 45.406 which is significant at 5% level of significance (Sig = 0.000). The findings implied that the model linking corporate strategies to performance of manufacturing firms was of good fit and corporate strategies contribute significantly to changes in performance of manufacturing firms. These findings are consistent

with the findings of a study by Monday, Akinola, Ologbenla and Aladeraji (2015) which showed that market development; product development and diversification strategies had significant effects on performance of Nigerian manufacturing firms. The findings for model coefficients are illustrated in Table 5.

Table 5: Regression Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
(Constant)	0.331	0.275		1.204	0.231
Market Development Strategy	0.345	0.057	0.403	6.08	0.000
Product Development Strategy	0.346	0.063	0.348	5.467	0.000
Market Diversification Strategy	0.172	0.063	0.188	2.723	0.007
Dependent Variable: Performance					

Source: Survey data (2018)

$$\text{Performance of Manufacturing Firms} = 0.331 + 0.345 (\text{Market Development Strategy}) + 0.346 (\text{Product Development Strategy}) + 0.172 (\text{Market Diversification Strategy})$$

Table 5 indicated the regression model coefficients of each indicator of corporate strategies that was included in the study; that is market development strategy, product development strategy and diversification strategy. The findings show that market development strategy has a beta coefficient of 0.345 and a p-value of 0.000, which implies that it positively and significantly affects performance of the manufacturing firms. The findings implied that an increase in market development strategy by one unit leads to an increase in performance of manufacturing firms by 0.345 units. The results further implied that by focusing on market development strategy, manufacturing firms can achieve high performance. Based on these results, it was concluded that manufacturing firms may determine their market depending on the particular segment's profitability and brand royalty among other factors. The findings were consistent with the findings of a study by Kittichai and Phaprueke (2010) conducted on the relationship between market development and performance among garment industry in Thailand and established that market development impacted positively on firm performance in the garment industry in Thailand.

The findings further indicated that product development strategy has a beta coefficient of 0.346

and a p-value of 0.000 which implied that it positively and significantly affects performance of manufacturing firms. These findings implied that an increase in product development strategy by one unit leads to an increase in performance of manufacturing firms by 0.346 units. The results further imply that product development strategy contribute to firm performance. This would benefit the firms in developing broad range of products to offer market choices to address customer preferences, and manufacturing unique products to cope with industry competition. The findings agree with the findings by Isidre, Gunasekaranb and Begoña (2002) on product development and firm performance in manufacturing companies located in Spain that established a positive relationship between product development and firm performance.

On evaluation of diversification strategy, the findings revealed a beta coefficient of 0.172 and a p-value of 0.007 which implied that it positively and significantly affects performance of manufacturing firms. The findings implied that an increase in market diversification strategy by one unit leads to an increase in performance of manufacturing firms by 0.172 units. Based on these results, it was argued that manufacturing firm focus on diversification would lead to benefits such as exploitation of emerging

market opportunities and acquiring new customers from competitors through market control. The findings are consistent with the findings of a study by Ezzi and Jarboui (2015) that diversification affect performance of manufacturing firms in Tunisia.

CONCLUSION AND POLICY IMPLICATION

The study established that the three indicators of corporate strategies were significantly correlated with performance of the manufacturing firms and had high explanatory power. Overall, corporate strategies were found to positively and significantly affect firm performance. Majority of the firms were found to have been in existence for more than 40 years. Based on this it was concluded that patience and consistence in manufacturing sector is a key attribute, thus the young entrepreneurs venturing into manufacturing sector should learn to be patient with their businesses to give them time for growth and build capacity to cope with the changing environmental variables.

Based on findings of this study, it was reasonable to concluded that corporate strategies influence performance of manufacturing firms. The positive impact of market development, product development and diversification indicators significantly impact on the measures of firm performance, namely customer retention, volume of sales, net profit and return on assets.

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These findings lead to a conclusion that manufacturing firms' participation in corporate strategies development and execution enables them to achieve firm objectives resulting to superior performance.

The study contributed to empirical literature on effect of corporate strategies on firm performance. Specifically, the study found out that corporate strategies significantly affect performance of manufacturing firms in Nairobi City County, Kenya. Therefore, the study findings contributed to the knowledge of strategic management by providing empirical evidence on effect of corporate strategies on performance of manufacturing firms in the context of developing and less industrialized economies.

The study contributed to the theoretical literature by supporting the proposition of the Resource Based View of the Firm that the resource value and core competencies of the firm can be used to determine the corporate grand strategy that enhances performance of the firm. The study empirically established that just like the proposition of the theory, superior firm performance results from uniqueness of the firm competencies in the industry. Therefore, the study findings provided empirical literature to scholars that will form basis for the analyses of corporate strategies in the context of RBV.

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