

# Influence Of Cost Leadership Strategy On Performance Of Public Universities In Western Kenya Region

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**Abstract:** The purpose of this study was to determine the influence of cost leadership strategy on the performance of Universities in the Western Kenya region. The study was guided by Michael Porter's Generic Strategy Theory. The study deployed descriptive survey research design. The Universities sampled in this study include Public Universities in the Western Kenya region. The target population was 409 administrative staff in-charge of academic programmes within in Universities in the Western Kenya region. From these, a sample size of 120 was obtained. The sample was identified using stratified and simple random sampling techniques. Both primary and secondary data were used. Primary data was collected using a structured questionnaire. Results indicated in the in the regression coefficient analysis reveal that Cost leadership Strategy has a statistically significant contribution in explaining the performance of Public Universities in Western Kenya. The study concludes that the cost leadership strategy has an ability to help universities cut a competitive edge survive the market threats. Considering various elements like proper deployment of technology, leveraged economies of scale, endeavoring outsourcing and cost reduction would public universities in a more successful way hence realizing optimized performance. The study recommended that cost leadership should be adopted alongside other competitive strategies to help in enhancing the performance aspect of public universities performance. Additionally, the study recommended that through market research should often to keep tabs on the market characteristics of prevailing environment.

**Keywords:** Cost Leadership, Competitive Strategies Strategy, Performance& Public Universities

## 1. Introduction

### 1.1 Background Information

Emergence of businesses in an already existing market call for organizations to understand and deploy relevant strategies in effort to maximize potential and enhance performance aspect. As businesses continue to flood the market, organizations tend to be pushed back to the drawing board in efforts to strategize on sustainability and survival tactics as they endeavor the competitive advantage over their peers [1]. In most cases, business end up downing their tools as a result of failing to have market control especially when their competitors have taken over. With technical advancement and innovation rolling in business environment in modern days, an organization may find its products and services irrelevant within a twinkling of an eye.

[2] postulate that an organization ought to have long term plans that can enable it have the sustainability power as well as remaining competitive. Such strategies according to Porter are known as competitive strategies which defend the organization from sudden collapse through losing market track. Among the competitive strategies that are pursued by organizations include focus strategy, differentiation strategy and cost leadership strategy. The threshold for the three competitive strategies consists of two basic factors. First, the strategies are based on the market target in terms of scope in that the scope has to be defined on the basis of whether it is narrow or broad. Second, the strategies are described basing on the aspect of cost on the basis of low cost or high cost.

Cost leadership strategy helps an organization to position itself in the best market position on low cost as its pillar. The strategy focuses on a number of issues inter alia, cost control, efficient distribution, establishment of networks, high

consumption of technology and increased utilization of available capacity. In cost leadership, the sales must be done in bulk in order to balance the between the input in terms of capital and output in terms of profit considering the cost aspect to the clients in question.

[3] in addition opines that the logic behind cost leadership typically needs that a firm be a cost leader. More importantly, [1] say that cost leadership as a generic strategy should not infer that products being marketed are the lowest priced product or services because quite often the product may be perceived as inferior and may only appeal to a certain portion of the market. Not only can an organization use cost leadership to attain competitive advantage, but can also use it to improve products and services by adding value to products and services using the value leadership strategy to gain customer satisfaction [4].

Cost leadership applies across every business environment including institutions of higher learning. Universities have been deemed as key player in realizing national development and gearing the nation towards realization of vision 2030 as well as helping in realizing sustainable. Development goals [1]. Being among the institutions that have been growing steadily, universities face a number of challenges that hinder effective dissemination of its mandate to the public [6] In Kenya education system, public universities to an extent have undergone challenges like discontinuing some courses, understaffing, lack of enough resources and general corruption image. Riding on such factors, private universities in Kenya have increasingly gained mileage in terms of market niche. However, the challenge still remains that the some students from the poor background find it a challenge to join private universities as a result of cost, leaving an opportunity for public universities to ride on [8].

### 1.2 Problem Statement

Public universities in Kenya have had a mixed taste on performance as compared to the accredited private universities that are on the rise. One of the problems related to this is lack of proper adoption of competitive strategies including cost leadership. In order to achieve considerable rewards from this strategy, the firm must be the cost leader and unopposed in this position [1]. However, the research on the aspects of cost leadership strategy and performance of service industry remain scarce [2]. Furthermore, as universities strive to survive in a market that is characterized by well performing private universities, there is need for research to the relationship between competitive strategies and performance of public universities to fill the gap. This study therefore sought to fill the gap by establishing the influence of cost leadership strategy on performance of public universities in western region of Kenya.

### 1.3 Purpose of the study

The purpose of this study was to investigate the influence of cost leadership strategy on performance of public Universities in western Kenya.

## 2. Literature Review

### 2.1 Theoretical underpinnings

The study was guided by Porter's three Generic Strategy Theory with specific focus on cost leadership strategy. Porter (1980) identified three main typologies of competitive advantage namely Cost leadership, differentiation and focus. Porter states that combination of the three strategies leads to a 'stuck in middle' situation whereby there is no clear direction and as a result the firm will have low performance. Cost leadership strategy entails offering a lower price to customers, compared to what the competition offers [3]. This strategy enables a firm to operate efficiently and in turn become an effective price leader. As a result of lower prices, competitor's growth is suppressed hence leading to price wars or undercutting of competitors profits [4]. By having lower cost of sale and raw materials, an organization can lower prices or offer higher quality or both. Also, cost savings can be achieved by outsourcing manufacturing and services from suppliers who offer lower cost products and services. This aids in a firm being able to challenge the price of opposing firms to gain cost leadership [4]. The aspect of cost leadership strategy among other three was chosen for the study because it is inherently tied to performance.

### 2.2 Empirical Review

[5] investigated the influence of cost leadership strategy on the performance of milk processing firms in Kenya through lens of competitive advantage as a mediator. The study adopted explanatory and descriptive research designs and sampled 29 milk firms through census technique. The results showed that cost leadership had positive and significant influence on milk processing firm's performance with competitive advantage partially having a mediating effect on their relationship. Various measures related to cost leadership, inter alia, economy of scope, economy of scale and operational efficiency together accounted for 40.1% of the variation in firm performance.

A study conducted by [6] sought to determine the effect of cost leadership strategy on the performance of insurance

firms in Nyeri County, Kenya. The study was anchored on the model of five forces by Porter and endeavoured a census research approach. The study established pursuing cost leadership strategies puts an organization in a pole position to perform well as the inferential statistics proved that there is a significant relationship between the two variables. The study recommended that for insurance companies to remain relevant in the competitive market, the management should venture into productive use of technology as well as embracing innovative approaches in the process of service dissemination.

[7] evaluated competitive strategies and firm performance through a review of existing literature. The study deployed Porter's generic Strategies and value discipline model in describing the available competitive strategy alternatives at the disposal of business firms. The review results indicated that generic strategies had a positive effect on the aspect of firm performance but varied from one industry to another. It however, the study established that literature on competitive strategies is still wanting as most studies have focused on same industries hence calling for diversification.

[8] investigated the effect of competitive strategies on performance of Public Universities in Kenya. She opines that cost-leadership positively correlates with performance of Public Universities. She informs that Public Universities may have access to cheap materials or superior proprietary technology which helps to lower costs. Lower costs in Public Universities lead to higher demand and, therefore to a larger market share. A University using a low-cost strategy can present barriers against new market entrants who would need a large amount of capital to enter the market. The leader is then somewhat insulated from industry wide price reductions.

## 3. Research Methods

### 3.1 Research Design

This research study adopted a descriptive survey research design. Quantitative approach was used to quantify the hypothesized relationship between the dependent variable (performance), and the independent variable (cost leadership strategy).

### 3.2 Study population and Sample Size

For the purpose of investigating cost leadership strategy and its influence on performance of Public Universities in Western Kenya region, the target population for this study was 409 administrative staff in charge of academics in the nine (9) Public Universities in the Western Kenya region. The sample for this study was drawn from nine Public Universities in Western Kenya region. Stratified sampling method was adopted to ensure that each cadre of administrative staff in charge of academics within the Universities was proportionally represented.

Stratified sampling was used because of its reduced sampling error, basing on the fact that the subjects in a stratum of the population shares at least one common characteristic. Simple systematic random sampling was used to select respondents from the strata. This study involved three strata; the C.O.Ds' stratum, the deans' stratum, and the registrars' stratum. According to [9] a sample of 10% and over of the population is appropriate. At least 30% of the total population is

representative. Thus, 30% of the accessible population is enough for the sample size. In this study the sample size was 120 as shown in table 1 below.

**Table 1:** Sampling Frame

University	Registrars	Deans	CO Ds	Population	%	Sample Size
University of Eldoret	3	9	34	46	30	14
Moi University	3	15	78	96	30	26
Masinde Muliro University	3	10	32	45	30	14
Maseno University	3	14	53	70	30	20
Jaramogi Oginga Odinga University of Science and Technology	3	10	20	33	30	10
Kisii University	3	8	34	45	30	13
University of Kabanga	3	7	18	28	30	8
Kibabii University	2	5	16	23	30	7
Rongo University	2	7	15	24	30	8
Total	25	87	300	410	30	120

Source: Human Resource Departments (2019).

### 3.3 Instruments of Data Collection

The present study involved the use of questionnaires. Secondary data was obtained from available research results on the relationship between cost leadership strategy and firm performance. Institutional data bases and websites of the Universities were also used.

### 3.4 Data Analysis

The data collected from the respondents was coded and entered in SPSS version 20 for data analysis. Data was presented in terms percentages, means and standard deviation. Correlation analysis was done to identify the relationship between focus strategy and performance of public Universities.

## 4. Findings and Discussion

### 4.1 Model summary of Cost Leadership and Universities Performance

The model summary brings in perspective the overall significance of regression analysis equation depicted by table 4 below. The information provided by the model concerns the regression line's ability to help in accounting for the total variation in performance of public universities (dependent variable). The table indicates R-square value of 0.648 implying that cost leadership strategy may explain 64.8% of variation in performance of public universities. Furthermore, the table indicate that cost leadership strategy has a positive correlation with performance of public universities in Kenya as  $R = 0.725$ . The value is high indicated a high positive relationship implying that Cost Leadership strategy has strong significant influence of performance of public universities in western region of Kenya.

**Table 2:** Model Summary for Cost leadership and Performance of Public Universities

Model	Coefficient
R	0.725 <sup>a</sup>
R Square	0.648
Adjusted R Square	0.632
Std Error of the Estimate	0.2856

a. Predictors: (Constant), Cost leadership

b. Dependent Variable: performance of public universities

### 4.2 ANOVA for Cost leadership strategy and Performance of Public Universities

The table below shows statistical significance of the regression model applied. Since the p value is 0.000 which is less than 0.05, the model can be deemed to be significantly fit in predicting the influence of the independent variable (cost leadership) on independent variable (performance of public universities).

**Table 3:** ANOVA for Cost Leadership

Indicator	Sum of Squares	Df	Mean Square	F	Sig
Regression	1.358	1	2.105	13.516	.000 <sup>b</sup>
Residual	3.322	114	.088		
Total	4.770	115			

a. Predictors: (Constant), Cost leadership

b. Dependent Variable: performance of public universities

The ANOVA results in table above indicate that the overall model was a good fit give that (F-value =13.516 and p-value of .000 which is less than 0.05). The p value of .000 shows that there is a significant relationship cost leadership and performance of public universities. Therefore, the regression model is significant implying that it is applicable in assessing the relationship between the dependent and independent variable.

### 4.3 Coefficients variation of Cost leadership and Performance of Public Universities

The study adopted the model  $Y = \alpha + \beta_1 X_1 + \epsilon$ , where Y=Performance of Public Universities;  $\alpha$ =Constant;  $\beta_1$ =Beta Coefficients;  $X_1$ =Cost Leadership strategy and  $\epsilon$ =Error Term. In table below, the finding of the regression

confidents, t-statistics, standard errors of the given estimates and the p value are highlighted.

**Table 4:** Coefficients variation of Cost leadership and Performance of Public Universities

	<i>Unstandardized Coefficients B Std Error</i>	<i>Standardized Coefficients Beta t sig.</i>		
(Constant)	2.147	.604	4.831	.000
Performance	0.541	.214	0.526	3.325 .000

a. Dependent Variable: Performance

b. Model (Constant): Cost leadership

From the table above, the coefficients indicate that there is positive and significant relationship between focus independent variable (cost leadership) and dependent variable (performance of public universities since  $\beta = 0.526$ , p-value = 0.000. From the findings, it can therefore be concluded that a unit change in cost leadership increases performance of public universities by 0.420 units hence: Universities Performance = 2.147+0.526 Cost leadership.

## 5. Summary, Conclusion and Recommendations

The purpose of the study was to establish the influence of cost leadership strategy on performance of public Universities in the Western Kenya region. To achieve this objective, it was hypothesized that cost leadership has no significant influence on performance of public Universities in the Western Kenya region. As indicated in the in the regression coefficient results, Cost leadership Strategy had a statistically significant contribution in explaining the performance of Public Universities in Western Kenya region,  $\beta = 0.526$ ,  $p=0.009 < 0.05$ ; thus we reject the null hypothesis but conclude that Cost Leadership Strategy has a significant influence in explaining the performance of Public Universities in Western Kenya region.

The study concludes that the cost leadership strategy has an ability to help universities cut a competitive edge survive the market threats. Considering various elements like proper deployment of technology, leveraged economies of scale, endeavoring outsourcing and cost reduction would public universities in a more successful way hence realizing optimized performance.

The study recommended that cost leadership should be adopted alongside other competitive strategies to help in enhancing the performance aspect of public universities performance. Additionally, the study recommended that through market research should often to keep tabs on the market characteristics of prevailing environment.

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