# GENERIC STRATEGIES EMPLOYED BY FOOD AND BEVERAGE FIRMS IN KENYA AND THEIR EFFECTS ON SUSTAINABLE COMPETITIVE ADVANTAGE

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**ABSTRACT**: *The focus of this study was on competitive strategies that firms adopt in the Kenya beverage industry in order to create above average performance. The fundamental basis of above industry performance is sustainable competitive advantage which is either created by low cost or differentiation strategy. The study aimed at establishing the generic strategies food and beverage firms in Kenya employ for sustainable competitive advantage. This research entailed a descriptive study design. Descriptive design uses a set of scientific methods to collect raw data and create data structures that are used to describe the existing characteristics of a defined target population. This study sought to do that among the F & B firms in Kenya. The study population consisted of 138 food and beverage manufacturing firms in Kenya registered with the Kenya Association of Manufacturers (KAM) by 2011. The data was tested for central tendency and dispersion after confirmation of normal distribution by appropriate tests of normality. Since the sample size was 32 (over the minimum 30 required for statistical analysis), regression analysis was carried out and interpretation of results of tests of hypothesis done. The research showed that 56.2 percent of the firms embrace duo strategies of cost leadership and differentiation simultaneously while 25 percent were exclusively on cost leadership and 18.8 percent were exclusively using differentiation. The use of dual strategies is a company survival tactic in terms of diversification of risks especially in very competitive environments like that of the Kenyan F&B industry. Results from Pearson's rank correlation coefficient between the dependent variable Y and the independent variables $X_1$ and $X_2$ gave coefficients of 0.653 and 0.279 respectively which was an indication of positive correlation.*

**KEYWORDS**: Generic Strategies, Competitive Advantage, Cost Leadership, Differentiation

## INTRODUCTION

The major focus of competitive strategy is a firm's relative position in an industry which indicates whether its profitability is above or below industry average. The fundamental basis of above industry performance is sustainable competitive advantage which is indicated by low cost or differentiation (Porter, 1985). When this is combined with the scope of activities for which a firm seeks to achieve competitiveness, they become generic strategies of cost leadership,

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differentiation and focus. Cost leadership and differentiation strategies seek competitive advantage in a broad range of industry segments while focus strategy aims at cost advantage (cost focus) or differentiation (differentiation focus) in a narrow segment (Porter, 1985). The strategic logic of cost leadership usually requires that a firm be the cost leader not one of the several firms vying for that position while in differentiation, a firm seeks to be unique in its industry along some dimensions that are 'widely valued by buyers' while focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or a group of segments in an industry and serves them at the exclusion of others (Porter1980; 1985). Cost leadership and differentiation are driven by cost and uniqueness drivers respectively (Porter, 1985). Johnson and Scholes (2002) define competitive strategies as the basis on which a business unit might achieve competitive advantage in its market. According to Walker (2004), competitive strategy must grow out of sophisticated understanding of the rules of competition that determine an industry's attractiveness. The aim of competitive strategy is to cope with and change those rules in the firm's favour. Competition among the Food and Beverage sector in Kenya has necessitated examination of the generic strategies employed by firms to remain competitive. This study aimed at establishing which strategies the food and beverage firms in Kenya employed to gain sustainable competitive advantage.

**Statement of the Problem**

The food and beverage industry is one of the most vibrant in the Kenyan economy because the country depends largely on agriculture for its manufacturing sector. This, coupled with the increasing population in towns and cities creates demand for processed foods and value added agricultural products with easy and fast preparation methods. This demand has driven processing firms into vigorous struggle for sustainable competitive advantage. To combat the competition, firms have positioned themselves strategically by applying generic strategies of cost leadership, differentiation or focus. The nature of competition in this particular industry, the type of generic strategies employed, the strategy drivers of cost leadership or differentiation employed and the effects of these on firms' sustainable competitive advantage have not been established among the Kenyan food and beverage firms. Previous studied have endeavoured to explore the implementation of strategies in entire manufacturing sector (Aosa, 1992; Waweru, 2008) but not for any particular subsector of the manufacturing industry. They have also not narrowed on the actual drivers of the generic strategies employed. This study sought to address this gap by establishing not only the nature of generic strategies employed but also their drivers and effects of these on sustainable competitive advantage of the food and beverage firms in Kenya. In so doing the study sought to address the following question: Which generic strategies do food and beverage firms in Kenya employ for sustainable competitive advantage?

Specifically, the study sought to address the following objectives;

1. To establish which generic strategies firms in the F&B industry in Kenya employed for SCA.
2. To establish effects of cost and uniqueness drivers in conferring the F&B firms SCA?

## LITERATURE REVIEW

### Principles underlying Generic Strategies and competitive advantage

The importance of competitive advantage and distinctive competencies as determinants of a firm's success has increased tremendously in the recent past based on the belief that fundamental basis of above average performance in the long term is sustainable competitive advantage. Superior value (what buyers are willing to pay) stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset the higher price (Porter, 1985). The very existence of competitive advantage sets in motion creative innovations that cause advantages to dissipate as competitors strive to level the playing field (Christiansen, 2001). It is therefore no guarantee that today's competitive advantage will suffice in the future. Porter (1980; 1985) identified three generic strategies of cost leadership, differentiation and focus.

Although cost leadership and differentiation strategies seek competitive advantage in a broad range of industry segments while focus aims at cost advantage (cost focus) or differentiation (differentiation focus) in a narrow segment, usually, a firm has to make a choice between one or the other of the generic strategies to avoid being 'stuck in the middle'. However, Porter (1985) posits that there are three conditions under which a firm can simultaneously achieve both cost leadership and differentiation: when competitors are 'stuck in the middle', when cost is strongly affected by market share or interrelationships rather than by product design, level of technology or service provided and when a firm pioneers a major innovation-being the only firm with the new innovation. Any industry, domestic or international, trading in goods or services, follows rules of competition as embodied in the Porter's (1985) five forces; the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and rivalry among existing competitors.

In an empirical investigation of aspects of strategy formulation and implementation within large, private manufacturing companies in Kenya, Aosa (1992) observed that low cost and differentiation generic strategies were practiced in many of the companies under focus. Waweru (2008) delved into competitive strategy implementation and effects on performance in large private sector firms in Kenya and found that there were three strategic groups of low cost leaders, differentiators and dual strategists in proportions of 1:3:6 respectively. Dual strategists were found to outperform firms that adopt one strategy exclusively. The study found evidence for support of win-lose competitive posture in the manufacturing service sector in Kenya.

### Cost leadership strategy and cost drivers

A low cost strategy requires that the firm is the lowest cost producer in that industry and not among several vying for that position (Porter, 1985). This strategy requires "aggressive construction of efficient- scale facilities, vigorous pursuit of cost reduction from experience, tight cost and overhead control, avoidance of marginal customer accounts and cost minimization in areas like research and development, service, sales force, advertizing and so on. Low cost, relative to competitors becomes the running theme through the entire strategy, though quality, service, and other areas cannot be ignored (Porter, 1980).

Cost drivers are structural factors that influence cost and a firm's relative cost position in a value activity depends on its important cost drivers. Cost drivers include economies of scale, learning, pattern of activity utilization, linkages, interrelationships, integration, timing, discretionary policies, location and institutional factors. Cost drivers often interact to determine the cost behavior of a particular value activity hence no one cost driver is a sole determinant of a firm's cost position (Porter, 1985).

## Differentiation strategy and uniqueness drivers

In a differentiation strategy, a firm seeks to be unique in its industry along dimensions that are widely valued by buyers. Under the strategy, a firm selects one or more attributes that many buyers in an industry perceive to be important, and uniquely positions itself to meet those needs. It is rewarded for that uniqueness with a premium price. A differentiation strategy does not allow a firm to ignore costs but rather they are not the primary strategic target (Porter, 1980). A firm that can achieve and sustain differentiation becomes the above average performer in an industry if its price premium exceeds the extra cost incurred in being unique. Pearce and Robinson (2005) emphasizes that a successful differentiation strategy allows a business to provide a product or service of perceived higher value to buyers at a "differentiation cost" below the "value premium" to buyers. The buyer feels the additional cost to buy a product or service is well below its worth compared with other available alternatives. While marketers select a best segment to target their product on, firms create more fine-tuned products or services offerings and price them appropriately for the target segment. The company can easily select the best distribution and communication channels, and it will also have a clearer picture of its competitors who are the other companies going after the same segment (Kotler, 2003)

Differentiation is driven by uniqueness. A firm's uniqueness in a value activity is determined by a series of basic drivers which are the underlying reasons why an activity is unique and without which a firm cannot fully develop means of creating new forms of differentiation or diagnose how sustainable the existing differentiation is (Porter, 1985).

## Focus strategy

Focus strategy is quite different from others in that it aims at a narrow competitive scope within the industry. Focus is about segmenting the industry and serving the narrow niche to the exclusion of others (Porter, 1985). Focus strategy has two variants- cost focus and differentiation focus. Cost focus aims at achieving cost advantage while differentiation focus is about seeking differentiation in a target segment. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments (Porter, 1980; 1985). Small companies, the better ones, usually thrive because they serve narrow market niches. Market focus allows some businesses to compete on the basis of low cost, differentiation and rapid response against much larger businesses with greater resources because focus lets a business "learn" its target customers, their needs, special considerations they want accommodated and establish personal relationships in ways that "differentiate" the smaller firm or make it more valuable to the target customer (Pearce and Robinson, 2005). Focus as a strategy was not aggressively pursued in this study.

**Research Hypothesis**

This study conceptualized a situation where either cost leadership or differentiation strategies separately or simultaneously employed confers firm's sustainable competitive advantage. The following hypothesis was formulated;

H1:    There is a positive relationship between use of generic strategies (cost leadership and differentiation) and sustainable competitive advantage in food and beverage firms in Kenya

**METHODOLOGY**

**Research Design**
This research entailed a descriptive study design. Descriptive studies are undertaken for purposes of ascertaining and describing the characteristics of the variables of interest and offering the researcher a profile or a description of relevant aspects of the phenomenon from the individual, organization, industry or other perspectives (Sekaran, 2003). Descriptive research design is about what, where and how of a phenomenon (Cooper & Schidler, 2003). Descriptive design uses a set of scientific methods to collect raw data and create data structures that are used to describe the existing characteristics of a defined target population (Frankel & Wallen, 2000). This study sought to do that among the F & B firms in Kenya.

**Population of the study**
The universe consisted of 138 food and beverage manufacturing firms in Kenya registered with the Kenya Association of Manufacturers (KAM) by 2011. KAM is the business member representative organization for manufacturing value-add sectors in Kenya(KAM Directory, 2011).  KAM membership is divided into 14 sectors . Of the 14 sectors, the Food and Beverage sector was the largest with 138 members (from a total of 662), equivalent to 20.8 percent of total KAM membership scattered in major towns and cities in Kenya. However, since it was established that 95 out of 138 (68.8 percent) of the companies were situated in Nairobi, Mombasa and their environs, this study targeted the firms in these two cities for a survey through purposive judgmental sampling. The companies were further classified into the following sub-sectors of the food and beverage sector: alcoholic beverages and spirits; bakers and millers; cocoa, chocolate and sugar confectionery; dairy products; juices/waters/carbonated soft drinks; slaughtering, preparation and preservation of meat; tobacco, and vegetable oils.

**Data collection**
This study used a standardized structured questionnaire to collect data. The questionnaire comprised both open and closed ended questions and sections for respondent concurrence on a 5-point Likert type scale consistent with Irungu (2007) and Waweru (2008) studies. Pre-testing the questionnaires for clarity and validity before actual administration to the respondents enabled the researchers to polish the instrument and refine it to focus on the items under study. This was consistent with Govindarajan (1988) who found that such preliminary treatment of the questionnaire enabled him to get validity, clarity and relevance of results. This was also consistent with the work of Kim and Lim ((1988) who pre-tested their questionnaire with five firms in a target sample of 44 and Newbert (2008) who used two academics to identify an

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appropriate starting point for his study and he consulted five executives of different technology firms to polish his study instrument.

A survey method was adopted using multi-pronged data collection techniques including email attachments, drop and pick, one-on-one meetings and aggressive calling to get target respondents. Any of the top three executives among the Chief Executive/Chairman, Marketing/ Finance manager, or the Human Resources Manager were targeted as respondents. This was consistent with the study by Zhou and Li (2012) who selected two key informants in each firm (one senior manager eg Chief Executive Officer, vice president, general manager and one middle level manager (marketing, sales, or R&D).

**Study Variables**

The dependent variable for this study was sustainable competitive advantage measured by its appropriate indicators. For an indicator to qualify as a measure of sustainable competitive advantage, it had to be high on the Likert scale and the trend of growth constant or increasing. Such an indicator was assumed to depict superior firm performance over its competitors. Profitability is the best indicator of sustainable competitive advantage or performance although for private and unlisted firms, this is a closely guarded company secret whose data is not normally obtainable. Moreover, use of perceptual performance measures is preferred by respondents since objective measures such as profits or revenues are seen as confidential (Gruber, Heinemann and Bretel, 2010). Use of multi-dimension measures based on perceptual firm performance further facilities comparison across firms and contexts such as across industries, time horizons and economic conditions (Song, Droge, Hanvanich and Calantone, 2005). Chandler and Hanks (1994) further aver that earlier studies have indicated perceptual performance measures tend to be highly correlated with objective indicators which support their validity. The independent variables were constructs of the major cost and uniqueness drivers for the key generic strategies of cost leadership and differentiation respectively.

**Data Analysis**
The data was tested for central tendency and dispersion after confirmation of normal distribution by appropriate tests of normality. Since the sample size was 32 (over the minimum 30 required for statistical analysis), regression analysis was carried out and interpretation of results of tests of hypotheses done using the F-test at 95 percent confidence interval. Descriptive statistics were generated to describe central tendencies and dispersion of the data. Descriptive statistics such as the mean, the range, the standard deviation and variance gave a good idea of how the respondents reacted to the items on the questionnaire and how good the items measured were. Poor spread (range) meant little variability and similarly, the mean, standard deviation and variance indicated whether the respondents ranged satisfactorily over the scale. Exploratory data analysis including reliability tests for constructs at both individual and composite level and measurement of both convergent and construct validity were carried out using regression analysis. Correlation between research constructs was analyzed while direct effects were established using regression analysis.

Reliability, which is a measure of the extent to which results are consistent over-time and an accurate representation of the total population and which also tests if the result can be reproduced under similar methodology indicating that the instrument is reliable (Joppe, 2000), was analyzed. Reliability shows the extent to which the study instrument is without bias (free of error) and ensures consistent measurements across time and across the various items in the instrument (Sekaran, 2003).    Reliability for constructs for cost leadership drivers of capacity utilization, economies of scale, firm location, discretionary policies and institutional factors had a Cranbach coefficient of 0.731. Individual cost drivers of firm location, discretionary policies and institutional factors generated Cranbach alpha values of 0.688, 0.828, 0.843 respectively which were high consistent with Nunnaly (1987). Constructs for uniqueness drivers had an alpha coefficient of 0.843 indicating high reliability. All constructs indicated a high level of internal consistency with coefficients of >0.7 save for location.

Validity, which tests the authenticity of cause-and- effect relationships (internal validity) and the generalization to the external environment (external validity) was tested.  Validity is concerned with whether the findings are really about what they appear to be about (Balta, 2008), was tested in this study. Content validity was tested by discussions with experts during the questionnaire formulation stage to ensure that the measure included an adequate and representative set of items that tapped the content.

**Hypothesis testing**

The hypothesis was tested on the basis of Pearson's bivariate correlation coefficient (r) with the degree of correlation in magnitude and sign being between -1 and 1 through regression analysis from the following model;

$$Y_i = \beta_o + \beta_1 X_1 + \beta_2 X_2 + u_i$$

Where;
$Y_i$ = Sustainable Competitive Advantage
$B_0$, $\beta 1$, $\beta 2$ are regression coefficients
$X_1$ = Cost Leadership Drivers
$X_2$ = Uniqueness drivers
$\mu_i$ is the error term

**RESULTS AND DISCUSSION:**

**Response rate**

The target number of firms was 95 in and around Nairobi and Mombasa. Out of the 95, 32 responded which was 33.7 percent of the target. This response rate was considered adequate because it was over 10 percent of the total population recommended by Kothari (2006) and yielded more than 30 valid responses which are considered critical for statistical analysis. The response rate was higher than that of Gruber *et al*., (2010) of 16 percent and also comparable to that of other studies directed at top managers or business owners (Dennis, 2003). Onyango (2011) managed 30 firms among small and medium enterprises in the food sector among SMEs

in Nairobi. Therefore, the response rate was adequate for in-depth exploration which was done through the detailed questionnaire and large enough (over 30) to allow for statistical analysis. Gay (1981) and Nolan (1994) point out that for correlation and descriptive studies, any justifiable number of subjects can be explored

## Company profiles

The companies ranged in terms of existence from 1922 to 2010 giving a range of 88 years. For old companies to have survived all the years was an indication of their competitiveness in the market and in this particular industry. From the eight sub-sectors of the F & B industry represented in the study, millers and bakers were leading the pack followed by vegetable oil companies.

This study had categorized small firms as those with less than 50 employees while large ones as those with more than 500 employees and medium ones as those between. It was found that most firms were in the medium and large categories with over 50 employees. They varied from a low of 12 employees (small start ups  by definition of this study (<50 employees)) to a high of 3000 people (large companies by Kenyan standards). This shows the huge disparity of companies operating in this industry which is explained by the varied nature of food and beverage processing.

## Use of Generic Strategies

Firms that embraced duo strategies of cost leadership and differentiation simultaneously were 56.2 percent while 25 percent were exclusively on cost leadership and 18.8 percent were exclusively on differentiation.The use of dual strategies is a company survival tactic in terms of diversification of risks especially in very competitive environments like that of the Kenyan F&B industry. These findings were consisted with Waweru (2008) studies which showed that firms employed duo strategies for diversification and survival. The findings were further consistent with arguments by Hill (1988) and Phllips, Chang and Buzzeli (1993) that in conditions where differentiation strategies can be used to expand market share, and this in turn permits greater capture of economies of scale and scope, external conditions might actively favour mixed strategies. Some of the external conditions include the distinctive characteristics of an industry's technology (Oskarsson and Sjoberg, 1994).

Scholars in support of cost leadership strategy (Hill, 1988; Murray, 1988) argue that conditions which favour it (such as reduction in transaction costs, process innovation, learning and scale effects), are independent from those that favour differentiation (such as consumer preferences, product innovation and quality differentiation) based on firms superiority in a particularly complex value system. Therefore, external conditions might actively favour mixed strategies (Hill, 1988; Murray, 1988).

In Kenya, cost saving is a major consideration in industry due to high cost of raw materials and energy. The greatest market for Kenyan goods especially foods is in the low and medium income bracket which makes companies focus more on common user products like maize and wheat flour, biscuits, cooking oils and juices instead of sophisticated high end differentiated products like chocolates, alcoholic beverages, wines and spirits and other prestige goods. This makes cost

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leadership a preference over differentiation due to expectedly large market share for common user items. However, huge companies still target the growing middle class with differentiated product without losing focus of the common user large market.

## Cost Leadership generic strategy and cost drivers

This strategy was tested among the respondent firms using five selected cost drivers according to porter (1985). From the Likert scale indications by respondents, most were in high agreement on the effects of cost leadership drivers on sustainable competitive advantage. According to Porter (1985), there are two ways in which a firm can gain cost advantage- control of cost drivers or reconfiguring the value chain by adopting a different or more efficient way to design, distribute or market a product.

## Capacity utilization

Over 80 percent of the respondents were in agreement that maximizing on capacity use is important as a cost saving measure hence a strategic cost driver.Capacity utilization at a given point in time is a function of seasonal, cyclical, and other demand and supply fluctuations unrelated to competitive position. Thus the pattern of utilization over the entire cycle is the correct cost driver instead of utilization at a point in time (Porter, 1985). Firms in the F&B industry in Kenya endeavour to maximize capacity use to reduce unnecessary fixed costs. This is consistent with Porter's (1985) assertion that fixed costs create a penalty for underutilization, and the ratio of fixed costs to variable cost indicates sensitivity of value activity to utilization.

## Economies of scale

Economies of scale was reported as a critical cost driver by most companies in their operations (about 80 percent) in the Kenyan food and beverage sector. However, economies of scale is different from capacity utilization because increasing capacity utilization spreads the fixed costs of existing facilities and personnel over large volumes while economies of scale imply that an activity operating at full capacity is more efficient at larger scale (Porter, 1985). One of the areas where Kenyan firms in food and beverage industry exploit economies of scale is in procurement and sale of items in bulk to reduce transaction costs. This was clearly evidenced by the edible oil and flour milling industries in their procurement of crude oil from the Far East (especially Malaysia) and maize from the East African region.

## Company location

Company physical location as a strategic cost driver was rated by only 40 percent of the respondents indicating that to most respondents, location was not critical as a cost leadership driver. Location in the industrial area of Nairobi has not been considered advantageous due to the high traffic and narrow road network that has characterized the area over the years. For importers of raw materials like crude oil for vegetable oils manufacture, location of Nairobi from the port of entry at Mombasa (about 485 kilometers away) is in itself a disadvantage. The reverse occurs with marketing of finished products hence location may not be a strategic cost driver in this industry. Location determines ease and cost of acquisition of personnel, management, raw materials and energy. Generally, location is critical in determining cost of inputs and cost of

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sales of products. Although there were mixed reaction to location as a critical cost driver, the majority of respondents indicated that strategic location of the firm determines the cost of doing business in terms of ease and cost of access of factors of production and marketing of produce even though this might not have been the case with their firms. This is consistent with Porter's (1985) argument that location of facilities relative to each other affects costs of transshipping, inventory, transportation, and coordination. Location has some influence on cost of almost every value activity and opportunities often exist for reducing cost through strategic location or relocation of value activities.

**Discretionary Policies as cost driver**
The product mix, service provision and efficiency of operations like delivery time, production scheduling and human resource policies constituted some aspects of discretionary policies tested in this study as cost drivers. This was found to be important in almost all companies in the F&B industry in Kenya. The cost of a value activity is often affected by the policy choices a firm makes, quite independently of other cost drivers. Kenyan consumers are particularly keen on variety of products, efficient service delivery and timing, which in turn determines customer royalty and cost saving. The high response to use of discretionary policies confirms that these are key cost drivers in the cost leadership strategy in Kenyan food and beverage industry. Policies play a vital role in determining cost hence cost analysis must reveal their impact. A firm must scrutinize its value activity to identify the explicit and implicit policy choices embedded in it because sometimes policy choices are nearly invisible, inherited or represent conventional wisdom that is unchallenged (Porter, 1991). Policy choices can often be changed rapidly yielding immediate cost reduction.

**Institutional Factors**
Institutional factors examined included strategic plans, organizational structure, presence and support for unionization, and customer service culture. Kenyan firms used these factors to their advantage to varying extents. Favourable institutional factors can lower costs just like unfavourable ones raise them. Institutional factors like strategic plans, organizational structure and culture guide companies in the direction and focus they take to achieve organizational goals effectively and efficiently which are ultimately, increased sales volumes and profits. In this study, organizational structure came out strongly as a major institutional factor in providing sustainable competitive advantage to firms in the F&B industry. This is consistent with findings of Csaszar (2012) that organizational structure, conceptualized as a decision making structure among a group of individuals, affects a number of initiatives pursued by organizations through errors of commission or omission. Csaszar further argues that the linkage between organizational structure and performance is amenable to explanation by the Sah and Stiglitz's (1986) theory which establishes a causal link between the structure of a decision making committee and the number of omission and commission errors the committee makes. The higher the consensus level, the fewer the projects pursued by the committee. All firms are amenable to decision making hierarchies and the few the levels (flatter organizations) the more efficiency the operations due to fast decisions.

**Uniqueness drivers of differentiation**
Uniqueness drivers were identified that would inform what companies were doing to be successful at differentiation strategy. Appendix V gives the uniqueness drivers and the effects as per percentage of respondents from firms using the differentiation strategy. Drivers of uniqueness vary for each activity and may vary across industries for the same activity. As Porter (1985) posits, a firm must examine itself to establish what drivers underlie its uniqueness in a value activity hence competitiveness.


Uniqueness drivers tested in this study included policy choices in terms of product features and performance, services provided, and skills and experience of personnel. Others included linkages with suppliers and distributors, timing, strategic location, interrelationships with stakeholders, large scale operation. Of the uniqueness drivers, Kenyan firms were found to emphasize on quality especially on product features and performance for high end markets, level and quality of services provided, linkages along value chains, and institutional factors. However, due to the higher majority of consumers being undifferentiated users of common items, the effect of differentiation as a strategy was not critically important to most.

## RESULTS OF HYPOTHESIS TESTING

Results from Pearson's rank correlation coefficient between the dependent variable Y and the independent variables $X_1$ and $X_2$ gave coefficients of 0.653 and 0.279 respectively which was an indication of positive correlation. The magnitude of the correlation was rather low for $X_2$ but fairly high for $X_1$. Results of multiple linear regression analysis using Ordinary Least Squares (OLS) on cost leadership and differentiation as independent variables and sustainable competitive advantage as the dependent variable indicated that constructs for cost leadership ($X_1$) were significant while those for differentiation were not (appendix VI a, b & c for model summary, ANOVA and coefficients respectively).

The results showed that the combination of cost leadership and differentiation factors explained 20.2 percent of the variation in sustainable competitive advantage. This is a low level of predictor variable meaning the model was weak. According to regression coefficients results, sustainable competitive advantage was significantly explained by effects of cost leadership drivers $X_1$ (p = 0.028, $\alpha$=0.05) but effects of differentiation were not significant (P = 0.753 > 0.05; $\alpha$=0.05). Since each of the generic strategies can independently provide a company sustainable competitive advantage, it means that effects of cost leadership drivers were more relevant in predicting the dependent variable than differentiation drivers within the Kenyan food and beverage companies.

It is expected that firms employ one of the generic strategies to the exclusion of others. Porter (1980; 1985) argues that companies using a generic strategy like cost leadership should strive to be the best at implementing that strategy. Those pursuing cost leadership should work at being the lowest cost producers and not among those saving costs since this would make all companies uncompetitive or 'stuck in the middle'. Kenyan firms in the F&B sector however confirmed use of dual generic strategies with cost leadership as a major strategy. One company indicated

indifference on choice or use of any particular strategy and could be classified as being 'stuck in the middle'.

Porter (1985) opined that use of duo generic strategies was favourable since the benefits are additive- with differentiation leading to premium prices at the same time as cost leadership implied lowering costs. Dual strategies work best when other competitions are 'stuck in the middle' hence the firm takes advantage of them, when a firm has a huge market share like Coca Cola or East Africa Breweries in which the firm opens a huge market share advantage with the cost advantage of the share in some activities allowing the firm to incur added costs elsewhere and still maintain the net cost leader and when a firm pioneers in innovation (Porter, 1985). The ability to be both low cost and differentiated is a function of being the only firm with the new innovation (Porter, 1985). However, Kenyan firms in food and beverage sector were found to engage and prefer pursuit of both generic strategies of cost leadership and differentiation simultaneously attributed to market fluctuations and escalating production costs especially for energy and raw materials. This makes firms pursue more stable strategies geared at cost saving.

**Collinearity tests**

Regression analysis was carried out through the step-wise method of SPSS to test for collinearity between the independent variables. Appendix VII gives results for the model showing indicators of collinearity by tolerance and variance inflation factors. From the results, it is evident that collinearity was not present in the model since the tolerance factors were >0.1 and VIF are <10 which were the two criteria for determining collinearity. This is consistent with Senaji (2012) that tolerance values below 0.1 (VIF >10) indicate the presence of high collinearity implying the variable is a linear function of another variable in the same model. It is an excellent measure of the collinearity of the $i$th independent variable with the other independent variables in the model. Tolerance for the $i$th independent variable is 1 minus the proportion of variance it shares with the other independent variable in the analysis $(1 - R^2 i)$. This represents the proportion of variance in the $i$th independent variable that is not related to the other independent variables in the model. The variance inflation factor is the reciprocal of tolerance: $1/(1-R^2 i)$. The VIF has an intuitive interpretation in terms of the effects of $R^2 i$ on the variance of the estimated regression coefficient for the $i$th independent variable (O'brien, 2007).


**CONCLUSION AND RECOMMENDATIONS**

From the results of the study on generic strategies of cost leadership and differentiation, and the accompanying discussion, it was apparent that Kenyan firms specialize in both cost leadership and differentiation simultaneously with exceptional cases of the one firm found 'stuck in the middle' not clearly following any strategy. The findings of this study confirm that firms can employ both cost leadership and differentiation simultaneously with few employing any one at the exclusion of the other. This does not constitute being 'stuck in the middle' but rather a more secure company position against environmental turbulence and market uncertainty.

On the actual cost drivers (cost saving measures) for cost leadership strategy, it was found that economies of scale, capacity utilization pattern, discretionary policies, institutional factors and

company location impacted on F & B firms in Kenya confirming that successful cost leaders usually derive their cost advantage from multiple sources within the value chain. Therefore, sustainable cost advantage stems from many activities and how the firm reconfigures its value chain as well as controlling the identified cost drivers (Porter, 1985).

On differentiation, probably Kenyan F&B firms have failed at managing uniqueness drivers making differentiation less prominent as a generic strategy. In some extreme cases, a firm may have such a large cost advantage in differentiating a particular value activity that its cost in that activity is actually lower than a firm not attempting to be unique in the activity. Confirmatory tests of hypothesis for the predictor and dependent variables for the model and the Pearson's correlation coefficient indicating positive correlation between generic strategies and sustainable competitive advantage confirmed this. Regression analysis for constructs of predictor variable for cost leadership were significant indicating that the strategy is important in the industry and the model was appropriate for explaining the relationship.

## RECOMMENDATIONS:

The findings on the best generic strategies indicated that most companies, almost without exception adopt cost leadership (or a variation thereof) hence industry players need to deepen their engagement into more cost effective methods of running business among F & B firms in Kenya. It is recommended that sourcing of materials and other value chain management practices that reduce cost be explored by all firms in the F&B industry.

Firms that already practice differentiation need to look deeper into how to make it work. However, since most firms practice dual strategy of cost leadership and differentiation simultaneously as found in this study, what is needed is for differentiating firms to look deeper into how to make uniqueness drivers less costly in order to make differentiation a significant practice in the industry. Differentiation should therefore be pursued more vigorously.

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