Competitive Strategies and Performance of Selected Non-Governmental Organizations in Nairobi County, Kenya

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ABSTRACT - This research explored if and how competitive strategies affect NGO performance and the main objective was to assess contribution of generic strategies on NGO performance using Porter’s competitive strategies typology. A descriptive research targeting a population of 1,252 NGOs from which 125 respondents were selected was employed. In each of these organizations, a questionnaire was administered to a department manager using the Internet. The regression analysis revealed positive effects of focus and differentiation strategy on NGO performance while cost leadership had no effect. The study recommends that in order to succeed in cost leadership strategy, NGOs require availability of capital needed to make investments in creation of resources and this can be achieved by innovative means to gain funding. It is also recommended that NGOs should seek to provide services in areas that are less populated and regions that they can provide differentiation or low-cost services for their beneficiaries. NGOs should design services and products to target client base that have a special need that is distinct from other products and services. This investigation focused on NGOs in Nairobi City County; further research is needed to focus on NGOs in other counties. The study found that there were positive effects of focus and differentiation strategy on NGO performance. This means there is need for further research on strategic effects on NGO performance in much more detail.

I. INTRODUCTION

Globally, organisations are actively seeking to differentiate themselves from competitors within their industry in regard to service quality, innovation, flexibility, as well as fast response (Rainbird, 2004). Rapid and unpredictable change is expected to continue since the environment itself is complex and ever changing. The turbulence within the environment leads to major escalation, which is defined by emerging technologies, new client attitudes, new rivals, new dimensions in relation to social controls, and most important of all, the unprecedented inquisitive role of the organization in the society (Ansoff & McDonnell, 2010).

In order to navigate these turbulent factors, organisations have resulted to adoption of competitive strategies. Competitive strategy is how companies compete by deliberately choosing a specific business and gain a competitive advantage and provide a special combination of value (Porter, 2004). Liu (2012) opines that the competitive strategy’s goal of a business is generally to realize its position within the industry it operates, so that it can protect itself from competitive forces and is able to adopt these forces to impact them in its favor. So as to create a defense position against these forces and reaches a greater performance for an organisation. An effective competitive strategy which is either an offensive or defensive action should be considered (Lynch, 2015).

In Kenya, the NGO sector has become very competitive in recent years due to the shrinking of international and donor funding. The evidence shows that NGOs failed to account for Kshs. 25.7 billion out of Kshs. 140 billion from donors. The report also showed that many NGOs were dependent funding from donors and this made them vulnerable to external shocks putting their sustainability under threat. The report further indicated that NGOs were performing poorly in their ability to collaborate and network thus performing poorly in raising funds (NGO Coordination Board, 2019). The report further highlighted that 61% of overall expenditure was used on projects with 25% going to personal emoluments, 4% on running costs, 8% on administration costs, and 2% on purchase of fixed assets (NGO Coordination Board, 2019). These figures show that a lot of the financial resources were being used in projects and not enough was going towards administration costs (NGO Coordination Board, 2019). These statistics show that NGOs need to adopt competitive strategies to be able to enhance their operations and initiatives and this is the motivation for this investigation.

1.1 Statement of the problem

There is evidence of academic attention on association between competitive strategies and NGO performance. Some studies (Kharub et al. 2019) have found no association between cost leadership competitive strategy and NGO performance while other research (Kago et al. 2018; Njuguna & Waithaka, 2020) have found positive impacts of cost leadership on NGO performance. In terms of focus strategy, studies (Islami et al., 2020) have found positive relationship with NGO performance while other evidence (Musyoki, 2016) shows no association among focus strategy and NGO performance. There is evidence (Adimo, 2018) of positive effects of differentiation approach on NGO performance while other research (Purwantia et al., 2020) shows no association...
between differentiation strategy and NGO performance. However, there is less evidence of studies that have used the generic competitive strategies as determinants of NGO performance and this is a gap this study aimed to fill.

### 1.2 Research objectives

The objectives of this study were to:

1. Examine association among cost leadership strategy and performance of NGOs in Nairobi County
2. Assess link among focus strategy and performance of NGOs in Nairobi County
3. Analyse connection amongst differentiation strategy and performance of NGOs in Nairobi County

## II. THEORETICAL FRAMEWORK

### 2.1 Porter’s Competitive Business Strategy Typology

Porter’s (1980) typology of competitive strategy explains that organisations are limited to selecting one so as to make effective and efficient use of resources. It is an important theory in comprehending the organisation competitiveness implying that competitive advantage comes from competitive approaches utilized to address weaknesses, threats, opportunities, and strength facing a firm (Lu, Shem, & Yam, 2008). Kiprotich, Gachunga, and Bonuke (2018) stated that so as to succeed, organisations are required to use the three competitive strategies. The relative position of an organization in a sector is determined if its profitability is below or above the sector average. The basic foundation of overhead regular profitability in is sustainable competitive advantage. Differentiation or low-cost are the main strategies which are mixed with the scope of actions for which an organisation aims to reach them and results in the three strategies for going beyond average industry performance (Porter, 1985).

Porter (1985) extended the cost leadership strategy describing it as a low-cost approach to providing services or products and can be influenced by different factors based on the arrangement of an industry. An economical firm necessity exploits and finds all sources to achieve this price benefit (Porter, 1985). If an organisation can attain and maintain total cost leadership, it will be higher in performance in its market as long as it can have prices near industry average.

The differentiation strategy is adopted when an organization is special in its sector in some parameters that are widely important to buyers. It uses more or one factors that most buyers in a sector see as significant and is a special position to meet those needs (Porter, 1985). Similarly, Porter (1985) asserts that focus strategy is dependent on choosing a small competitive range in a sector where a company chooses a group or part in a sector and matches its approach to serve them to an exclusion of other rivals. Focus strategy can be categorized into cost focus where a cost advantage is sought in its targeted group and differentiation focus (Porter, 1985).

### 2.2 Empirical literature

#### 2.2.1 Cost Leadership Strategy

The cost leadership has been measured using different parameters by different authors. Acquaah and Agyapong (2015) measured cost leadership by providing a wide range of services or products, control of overhead and operating costs, offer competitive price for services or products, and attain innovation in service offering or production process. Baraza (2017) considered personnel performance, resource utilization, cost reduction strategies, production/service improvement, delivery process, innovation, time management, efficiency as measures of cost leadership. Onyango (2017) measured cost leadership by four dimensions: economies of scale, economies of learning, value chain management, and low cost production inputs.

Ochodo, Oloko, and Yabs (2020) study used resource utilization, technology solutions, reliability, customer service, factors of production, and procurement to measure the concept of cost leadership. Statement operation cost, input cost, linkages, and cost of service were used to measure cost leadership in Chepchirchir, Omiilo, and Munyua (2018) research. In their research, Kowo, Sabitu, and Adegbite (2018) measured cost leadership by mass distribution, resource utilization, capacity, forming linkages, cost control, supplementary firms, mass production, economies of scale, suppliers, and efficiency. In their research, Wairimu and Kirui (2020) measured cost leadership using five dimensions, these are, production costs, cost strategy, low-cost operations, and working capital, cost advantages in procurement, economies of scale, operating efficiencies, high prices, and aggressive product pricing statements were used to measure cost leadership in (Hunjra, Faisal, & Gulshion, 2017) research.

#### 2.2.2 Focus Strategy

In their research, Hossain et al. (2019) used competitive pricing, innovations, product differentiation, market segments, and quality of products as indicators as dimensions of focus strategy. In Kalangu (2019) study, focus strategy was measured by three indicators: unique products, known segments, and tailored products. Muia (2017) measured focus strategy by market focus statements, customer focus statements, and pricing focus statements. Chumba (2019) adopted customized services, specific market segments, new markets for services and products as parameters to measure focus strategy. Physiological aspects, Benefit preferences or sought, and income level were used to measure the focus strategy as measured by Kowo et al. (2018). In their study, Chege (2017) focus strategy was measured by low income markets, high income markets, substitute products, and
superior customer products. In Abdulhaleem (2011) focus strategy was measured by non-price competitive advantages and provision of high quality products.

### 2.2.3 Differentiation Strategy

Nandakumar et al. (2011) measured the differentiation strategy by product development, product innovation, number of new products, advertising and marketing, sales force, and brand identification were used to measure the differentiation strategy construct. In their study, Gorondutse and Hilman, 2017 measured the differentiation strategy by product development, product innovation, number of new products, advertising and marketing, sales force, and brand identification. Adimo (2018) adopted product quality and product variety to measure product differentiation. Nuru (2015) used service differentiation strategy (service quality, operating hours, after-sales-services) and product differentiation strategy (quality, selection, assortment, position and variety) to measure differentiation strategy. Branding, advertising, and features were the dimensions used to measure the differentiation strategy by Chege (2017).

In their study, Kowo et al. (2018) measured differentiation strategy using advertising/promotion campaign, technological and personnel leadership, service or product, place, and price. Maina and Waithaka (2018) measured differentiation strategy by technology leadership, promotion or advertising campaign, offerings based on price, product placement, and products/services. The dimensions of product/service quality and innovation were used to measure differentiation strategy by Onyango (2017) used product assortment, selection, products quality, and positioning represented product differentiation and service variation (after sale service, advertising/promotion, operating hours sales incentive), physical differentiation (parking space, store location, display/layout, store design, and store atmosphere), were used to measure the variable of differentiation in Githumbi (2017).

### III. RESEARCH DESIGN AND METHODOLOGY

A descriptive research design was adopted for this study with the target population being the NGOs with projects in Nairobi County which was 1,252 NGOs (NGO Coordination Board, 2019) in the education, health, relief and disaster management, HIV/AIDS, and children. Using Mugenda and Mugenda (2019) recommendation to select 10-30 percent of a target population, the sample size was determined as 125 respondents corresponding to 10 percent of the NGOs. Structured questionnaires were used to collect information from management staff from which 115 questionnaires were collected back and used in the analysis.

### IV. RESULTS AND INTERPRETATIONS

#### 4.1 Correlation results

Table 4.11 specifies positive association of cost leadership strategy ($r = 0.368, p = 0.000$), focus strategy ($r = 0.405, p = 0.000$), and differentiation strategy ($r = 0.611, p = 0.000$) with NGO performance. An increase in cost leadership, focus, and differentiation strategies moved uniform with NGO performance implying increase in competitive strategies resulted increase in NGO performance.

|                      | Cost leadership Strategy | Focus Strategy | Differentiation Strategy |
|----------------------|--------------------------|----------------|--------------------------|
| Cost leadership strategy | 1                        |                |                          |
| Focus Strategy       | 0.18                     | 1              |                          |
|                      | 0.055                    |                |                          |
| Differentiation Strategy | 0.578**             | 0.383**        | 1                        |
|                      | 0.000                    | 0.000          |                          |
| NGO performance      | 0.368**                  | 0.405**        | 0.611**                  |
|                      | 0.000                    | 0.000          | 0.000                    |
| 115                  | 115                      | 115            |                          |

** Correlation is significant at the 0.01 level (2-tailed).

#### 4.2 Multiple regression results

The multiple linear regressions were conducted and are presented in this sub-section that includes the findings from the ANOVA, model summary, and coefficients. The findings show that the $R^2$ was 0.409 implying model was responsible for 40.9 percent of change in NGO performance and was significant as F statistic ($F = 25.615$) was positive and significant at the 95 percent ($p = 0.000$) confidence level. The results indicate that cost leadership had a 0.030 increase on NGO performance but this was insignificant. The focus strategy and differentiation strategy indicate that they had 0.258 and 0.511 increase on NGO performance and significant at 95 percent confidence level.
In terms of objective one, the findings did not show any significant effects on firm performance providing support for earlier studies that found similar results. One such study is Kharub et al. (2019) revealed impression of cost leadership competitive strategy on firm’s performance finding performance and cost leadership had not relationship. In another study, Acquaah and Agyapong (2015) findings were similar to this study where cost leadership did not influence performance. However, results go against other studies that found positive and significant effects of performance by cost leadership. These include Baraza’s (2017) study established cost leadership strategy positively influences performance. Kago et al. (2018) found cost leadership strategy positively drove performance. Njuguna and Waithaka (2020) found cost leadership had a contribution firm performance level.

In terms of objective two, focus strategy had an increase on NGO performance agreeing with previous studies that found similar results. These included an investigation conducted in Kosovo where Islami et al. (2020) asserted that firm performance was affected by focus strategy. In another research, Hossain et al. (2019) findings revealed that focus strategy resulted in brand performance increase. Akintokunbo (2018) confirmed positive effects of focus strategy on firm performance. In regard to objective three, the findings revealed positive effects of differentiation strategy on NGO performance. This agrees with Nandakumar et al. (2011) that firms adopting differentiation strategy perform better. Gorondutse and Hilman (2017) established differentiation strategy positively associated with performance.

### Table 2: Model Summary, ANOVA, and Coefficients

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|---|----------|-------------------|---------------------------|
| 1     | .640a | 0.409 | 0.393 | 0.43933 |

#### ANOVA*

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|-------|----------------|----|-------------|---|------|
| 1     | Regression     | 14.832 | 3 | 4.944 | 25.615 | .000b |
|       | Residual       | 21.424 | 111 | 0.193 |     |      |
| Total | 36.256         | 114 |     |     |      |      |

#### Coefficients*

|                      | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
|----------------------|-----------------------------|---------------------------|---|------|
| (Constant)           | 0.491                       | 0.367                     | 1.338 | 0.184 |
| Cost leadership strategy | 0.030                     | 0.081                     | 0.034 | 0.377 | 0.707 |
| Focus Strategy       | 0.258                       | 0.101                     | 0.203 | 2.561 | 0.012 |
| Differentiation Strategy | 0.511                     | 0.095                     | 0.514 | 5.395 | 0.000 |

### V. CONCLUSION

The study concludes NGO performance was not affected by cost leadership strategy and its utilization was used at moderate extent with NGOs aiming to utilize resources in an efficient manner so as to reduce the costs that they incur in their operations. Second, that focus strategy has affected NGO performance where offering prices to those that pay higher was not one of the focus strategies that NGO used as their focus was to assist the marginalized in society. Third, the differentiation strategy had the highest effects on NGO performance with more and more NGOs being engaged in promoting sales of their products and services via several channels.

#### 5.1 Recommendations

First, it is this study’s recommendation that NGOs need capital access needed to make important venture in asset creation and this can be achieved by innovative means to gain funding. Second, the study recommends that NGOs should be ready to enter into marginalized areas utilizing a differentiation or low-cost base. Third, the study recommends that NGOs should design services and products to request clients with special demands for specific service features.

#### 5.2 Areas of future research

This investigation focused on NGOs in Nairobi City County; further research is needed to focus on NGOs in other counties. The study found that there were positive effects of focus and differentiation strategy on NGO performance. This means there is need for further research on strategic effects on NGO performance in much more detail.

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