ASSESSMENT OF MICHAEL PORTER'S COMPETITIVE STRATEGIES INFLUENCE ON FINANCIAL PERFORMANCE OF SMALLHOLDER TEA FACTORIES: A CASE OF KIAMBU AND MURANG'A COUNTIES

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ABSTRACT
The main purpose of this study was to assess Michael Porter's competitive strategies influence on financial performance of smallholder tea factories in Kenya which has since been liberalised under the category of smallholder tea sub sector in Kenya. The study design used is a descriptive research design to conduct the study, and the study area was Kiambu and Murang'a counties. The target population of the study were tea farmers, tea factory employees and tea factory managers of the study area. The sample studied comprised of twelve smallholder tea factory companies in the tea subsector spread over Kiambu and Murang'a counties in Kenya. The instrumentation used were questionnaires administered to respondents through emails and interview schedules which were used to sought more relevant information and clarify queries in the questionnaire. The research study used both primary and secondary data from sampled respondents. Data was analysed by using of SPSS package version 17, where descriptive and regression model was used to assess the relationship between the variables in the research study.From the findings it was concluded that Cost leadership strategy plays a significant role in determining the financial performance of the smallholder tea factories in Kenya with a beta coefficient of 0.604, the effect is very significant at (p=0.000). Differentiation strategy is useful in making smallholder tea factories's product stand-out against competitor's products in the market.

Key words; Competitive advantage, Competitive Strategies, Cost Leadership Strategy, Organizational performance, Smallholder tea factories

1.1 Background of the study

Strategies are developed by firms to enable them seize strategic initiatives and maintain a competitive edge in the market (Porter, 1985). The competitive strategy of a firm determines its performance (Grant, 1991; Mahoney & Pandian, 1992). Knowing what customers want and how the firm survives competition are prerequisite for firm success (Joffre, 2011; Grant, 2003).

Competitive strategy is about being different; deliberately choosing to perform activities differently or to perform different activities than rivals to deliver a unique mix of value (Porter, 1980).

Strategies exist at several levels in organizations, ranging from the overall business to individuals working. However, the levels of strategies are divided into three broad categories, namely corporate, business and functional levels (Thompson, 2006).

To obtain firm performance within the scope of sustainable competitive advantage, decisions on shaping firm's competitive strategies are one of the main issues for managers under firms' business level strategy. Competitive advantage is the result of a strategy helping a firm to maintain and sustain a favourable market position. This position is translated into higher profits compared to those obtained by competitors operating in the same industry (Calcagno, 2007). Indeed, understanding which resources and firm behaviours lead to competitive advantage is considered to be the fundamental issue in strategic management studies (Porter, 1985; Ghemawat, 2006).

Not all industries have equal potential. They differ fundamentally in their ultimate profit potential as the collective strength of the forces of competition differs (Woodward, 2008). In the 21st century business landscape, firms compete in a complex and challenging context that is being transformed by many factors from globalization, frequent and uncertain changes to the growing use of information technologies (DeNisi, Hitt and Jackson, 2003). Thus, achieving the desired performance is a major pre-occupation of senior managers in the competitive and slow growth markets, which characterize many businesses today and the sources of competitive advantage have been a major concern for scholars and practitioners (Peteraf, 2003).

Most organizations search for the best strategies in order to consolidate their position in the market. Maintenance of competitive position and application of appropriate strategy most frequently ensure company's survival in the market and good results of its performance (Athiyaman, 2005).

Porter (1980) analyzed the competitive advantage of a firm in relation to its scope of activities (competitive scope) and came out with three strategies which he called competitive strategies. Porter also contends that generic strategies namely, cost leadership, differentiation, and focus strategies, are mutually limited or at least non complementary, and there are rare companies that can adopt more than one of these strategies simultaneously because of its high cost.

Smallholder tea factories in Kenya are believed to be some of the organizations which have adopted Michael Porter's competitive strategies in order to sustain their survival in the tea industry. Smallholder tea factories are one of the greatest success stories in the Kenyan agriculture sector. It is the leading foreign exchange earner accounting for about twenty per cent (20%) of the total agricultural export earnings in Kenya (Nyangito and Kimura, 1999). The crop also contributes immensely towards employment directly to farm owners and workers on farms and to industry and service sectors as Nyangito and Kimura further argue.

Smallholder tea factories in Kenya are firms own by smallholder tea farmers who farm in less than eight hectares of tea farms (Nyagoti, 2001). Smallholder tea growing in Kenya was allowed by law in 1963 (CDA, 2008). The crop has since spread across the country and is currently an important economic mainstay for many smallholder tea farmers. By 2005, smallholder tea farmers had more acreage in tea, covering sixty six percent of the total area under the crop (Mwaura and Muku, 2007). The activities of smallholder tea factories, which are production, processing and marketing were under control of the Kenyan government until 1997. (Drucker, 2005) due to liberalization policies in agriculture, the previously publicly own smallholder tea factories were put in the hands of tea farmers whose companies undertake tea collection and processing.

The latest statistics shows that, approximately 62% of the total tea crop in Kenya is produced by more than 560,000 smallholder tea farmers and the balance is produced by the large tea estates. Smallholder tea farmers produce and sell their tea through Kenya Tea Development Agency, which is the largest single tea agency in the globe managing sixty six smallholder tea factories on behalf to the tea farmers.

However, liberalization has exposed the smallholder tea factory companies to stiff competition that has emerged from new entrants into the tea growing business. Most of these new competitors are from neighboring countries such as Rwanda, Burundi and Malawi apart from existing stiff competition from factories own by large tea estates and competition among smallholder tea factories, all competing for the limited market share.

Though competitive strategies have been an important academic research topic, most of the studies have been undertaken in other firms. There is a little documentation on studies reviewed focusing on influence of Michael Porter's competitive strategies on tea factory financial performance, particularly in the smallholder tea sector in Kenya. Hence, there was a need to assess the influence of adopted competitive strategies (cost leadership, differentiation and focus strategies) on smallholder tea factory financial performance in Kenya. This study also examined the extent of adoption of competitive strategies and assess the influence of competitive strategies on the financial performance of the smallholder tea factories in Kenya over a period of five years.

1.2 Statement of the problem

Kenya is a key player in global tea industry especially through smallholder tea growers whose tea business is mainly managed by Kenya Tea development Agency. However, smallholder tea growers are facing the challenge of inconsistent annual net income which also differs from one producing company to another, even though the companies are managed by the same managing agent. The fluctuation of net income might be attributed to competitive strategies adopted by individual smallholder tea factory company. This study examined the extent of adoption of competitive strategies and assess the influence of competitive strategies on the financial performance smallholder tea factories in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical review

Competitive strategy is about being different; deliberately choosing to perform activities differently or to perform different activities than rivals to deliver a unique mix of value (Porter, 1980). The 3Cs strategic triangle model identifies competition as one of the 3 key factors for success of a firm (Joffre, 2011; Grant, 2008; Ohmae, 1982). Gakure and Amurle (2013) construed that the ability to understand customer needs and competitor moves, strengths and weaknesses provide small firms with strategic information vital for their success. The two researchers also inferred that the firms that undertake continuous search for market information are more likely to have good understanding of their immediate external environment, which mainly constitutes the customer and the competitor. Making competitive advantages the cornerstone of your marketing strategy; and communicating these advantages clearly to your customers in your promotional tactics is vital (Kiveu and Ofafa, 2013). Market orientation theory holds that the key to achieving organizational goals is being more effective than competitors in integrating marketing activities to determine the needs of target markets (Kotler 1999). Kotler noted that firms with better understanding of their customers, competitors and environment have a competitive edge.

2.2 The concept of competitive strategy

According to Thompson *et al.*, (2004), competitive strategy refers to how an organization is able to compete in a particular industry. Competitive strategy is concerned with how an organization can gain competitive advantage through a distinctive way of competing. In looking at competitive strategy closely, it is important to note that decisions generate actions which produce results. In other words, organizational results are the consequences of the decisions made by its leaders. The framework that guides and focuses these decisions is strategy. The framework that guides competitive positioning decisions is called competitive strategy. The purpose of competitive strategy is to build a sustainable competitive advantage over the organization's rivals.

The generic competitive strategies form a business tool which helps strategists understand how the position of an organization within its industry can be directly related to the strategy it employs. The strategy employed can then be analyzed to understand where an organization's competitive strategies lie, with a view to maintaining it. Porter (1985) identified the two main types of Competitive strategies as cost advantage strategies and differentiation. In developing and maintaining their competitive advantage strategies, organizations have the option to adopt one of the three generic strategies: cost leadership, differentiation or focus. The horizontal axis across the top of the graph shows the type of competitive strategies the organization has, whilst the vertical axis relates to the scope of the competition, either broad and organization-wide or narrow and limited to a market segment.

Competitive advantage

Competitive Scope		Low cost	Differentiation
	Broad target	Cost leadership	Differentiation
	Narrow target	Cost Focus	Differentiation Focus

Fig. 2.1 Three Generic Strategies

Source: Porter (1985)

Porter, (1985) notes that the cost leadership strategy where a business organization aims to cut-price its competitors by reducing overheads or the fixed costs associated with manufacture and distribution; it requires a focus on the efficiency of production lines and economies of scale. This strategy is employed where customers have the ability to change suppliers easily and the products or services are standardized and well understood by the consumer. A good example of cost leadership strategy is employed by supermarket chains on everyday necessity goods. By using this strategy, marketing the product becomes less important. Benefits include raising barriers for competitors to enter the market and easing the effect of fixed-cost rises across the industry. It involves the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive). Porter, (1985) noted that the primary reason for pursuing forward, backward, and horizontal integration strategies to gain cost leadership benefits. Among cost elements to consider are facilities, operations, overheads, cost saving from experience, and being relatively frugal in such areas as research development, service, sales force, training and development and advertising. According to Venu, (2001), striving to be the low-cost producer in an industry can be especially effective when the market is composed of many price-sensitive buyers, when there are few ways to achieve product differentiation, when buyers do not care much about differences from brand to brand, or when there are a large number of buyers with significant bargaining power. The basic idea is to under-price competitors and thereby gain market share and sales, driving some competitors out of the market entirely.

2.3 DIFFERENTIATION STRATEGY AND ORGANIZATIONAL PERFORMANCE

According to Porter (1985), differentiation strategy involves creating a product that is perceived as unique. The unique features or benefits should provide superior value for the customer if this strategy is to be successful. Because customers see the product as unrivaled and unequaled, the price elasticity of demand tends to be reduced and customers tend to be more brand loyalists. This can provide considerable insulation from competition. Porter (1985) also argued that the logic of differentiation strategy requires a firm to be truly unique at something or be perceived as unique. He concludes that, reward for uniqueness is a premium price.

Jassim (2008) differentiation strategy primary focus is creating uniqueness such that the organization's goods and services are clearly distinguished from those of its competitors. Porter (1985) argued that a firm creates value for a buyer by either lowering buyer cost or raising buyer performance, by lowering delivery, installation or financing costs, lowering the required rate of usage, lowering direct cost of maintenance or space, indirect costs, risk of product failure and lowering the buyer cost in other value activities.

According to Porter raising the buyer performance includes exceeding the buyer's desired performance, helping to meet buyer's non-economic goals and satisfying their needs in a better way. If a firm successfully earns a premium price in excess of differentiation cost then it returns will be above average resulting in improved organization performance.

According to Pollitt and Bouckaert, (2000) differentiation can be a source of competitive advantage. Although research in a niche market may result in changing a product in order to improve differentiation, the changes themselves are not differentiation. Marketing or product differentiation is the process of describing the differences between products or services, or the resulting list of differences. This is done in order to demonstrate the unique aspects of a firm's product and create a sense of value. Marketing textbooks are firm on the point that any differentiation must be valued by buyers.

The term unique selling proposition refers to advertising to communicate a product's differentiation. According to Pollitt and Bouckaert, (2000) a differentiation strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy. Successful brand management also results in perceived uniqueness even when the physical product is the same as competitors.

2.4 FOCUS STRATEGY AND ORGANIZATIONAL PERFORMANCE

Under a focus strategy, a business focuses its effort on one particular segment of the market; it seeks differentiation or cost advantage in its target segment under a narrow competitive scope and aims to become well known for providing products/services for that segment. They form a competitive advantage by catering for the specific needs and wants of their niche market. Once a firm has decided which market segment they will aim their products at; Porter said they have the option to pursue a cost leadership strategy or a differentiation strategy to suit that segment.

A focus strategy is known as a narrow scope strategy because the business is focusing on a narrow (specific) segment of the market. Porter (1985) mentioned that the focus strategy has two variants; cost focus and differentiation focus. Cost focus exploits differences in cost behavior while differentiation focus exploits special needs of the buyers in a certain segment. In adopting a narrow focus, the company ideally focuses on a few target markets.

Reck *et al*, (2008) states that in adopting a narrow focus, a company ideally focuses on a few target markets (also called a segmentation strategy or niche strategy). These should be distinct groups with specialized needs. The choice of offering low prices or differentiated products/ services should depend on the needs of the selected segment and the resources and capabilities of the firm. It is believed that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through product innovation and/or brand marketing rather than efficiency. It is most suitable for relatively small firms but can be used by any company.

A focused strategy should target market segments that are less vulnerable to substitutes or where competition is weakest to earn above-average return on investment. Hence the organization performance is expected to improve. Reck *et al*, (2008) states that in adopting a broad focus scope, the principle is the same: the firm must ascertain the needs and wants of the mass market, and compete either on price (low cost) or differentiation (quality, brand and customization) depending on its resources and capabilities. Some companies have a broad scope and adopt a cost leadership strategy in the mass market.

Reck *et al*, (2008) argues that Porter identified that one combination of the strategies is possible: combining market segmentation with differentiation. However, in general, other combinations are not possible due to a conflict between cost reduction and value-added differentiation. Therefore, a company should retain one overall main strategy to maintain its long term competitive advantage strategies.

2.5 CONCEPT OF ORGANIZATIONAL PERFORMANCE

Organizational performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action (Koontz and Donnell, 2003). Organizational performance can also be used to view how an enterprise is doing in terms of level of profit, market share and product quality in relation to other enterprises in the same industry. Consequently, it is a reflection of productivity of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of the organization.

Organizational performance includes multiple activities that help in establishing the goals of the organization, and monitor the progress towards the target (Johnson et al., 2006). It is used to make adjustments to accomplish goals more efficiently and effectively. For any business to be successful, functions must be defined and accomplished. It is important for an organization to develop strategies that are designed around the skills that would enhance the performance of the organization.

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes:

(a) financial performance (profits, return on assets, return on investment, etc.);

(b) product market performance (sales, market share, etc.); and

(c) shareholder return (total shareholder return, economic value added, etc.).

According to Swanson (2000), organizational performance is the valued productive output of a system in the form of goods or services. Organizational performance can be subdivided into three categories: financial performance (profit), internal non-financial performance (productivity) and external non-financial performance (customer satisfaction). Private sector organizations strive for good financial results whereas public organizations are aimed at non-financial aims like delivering good public services to citizens.

2.6 MEASUREMENT OF FINANCIAL PERFORMANCE OF AN ORGANIZATION

In measuring the financial performance of a firm various financial ratios are used.

These are profitability ratios, liquidity, debt, and asset ratios. The value of a firm is determined using profitability ratios.

(Brigham and Houston, 2004), the profitability ratios measure the ability of a firm to earn adequate return on sales, return on equity/return on assets and return on invested capital. The most important of these ratios is return on equity (ROE)/Return on assets (ROA). This is because investors put their money in an investment so that they get a return and this ratio helps to determine how they are doing in this sense.

Another important group of ratios is the market value ratios. These ratios primarily relate a firm's stock price to its earnings, cash flow and book value per share. They provide an indication of what stockholders and other investors view a firm's past performance and future prospects. In evaluating the performance of a firm it is also important to conduct trend analysis of a firm's ratios. In trend analysis, ratios are plotted over a period of time. Profitability ratios indicate how liquidity, management of assets and debt all combined affect the bottom line. The ratios to be considered under this project are the Profit Margin and Return on Common Equity, (ROE)/ Return on assets (ROA).

This ROE ratio is important because it measures the return investors get from putting their money in a certain firm.

2.7 Conceptual framework

The conceptual framework for this study was based on Michael Porter's Generic Competitive Strategies. This study was motivated to ascertain the competitive strategies affecting financial performance of Smallholder tea factories. The independent variables in this study are Cost Leadership Strategy, Differentiation Strategy and Focus Strategy while the financial performance is the dependent variable.

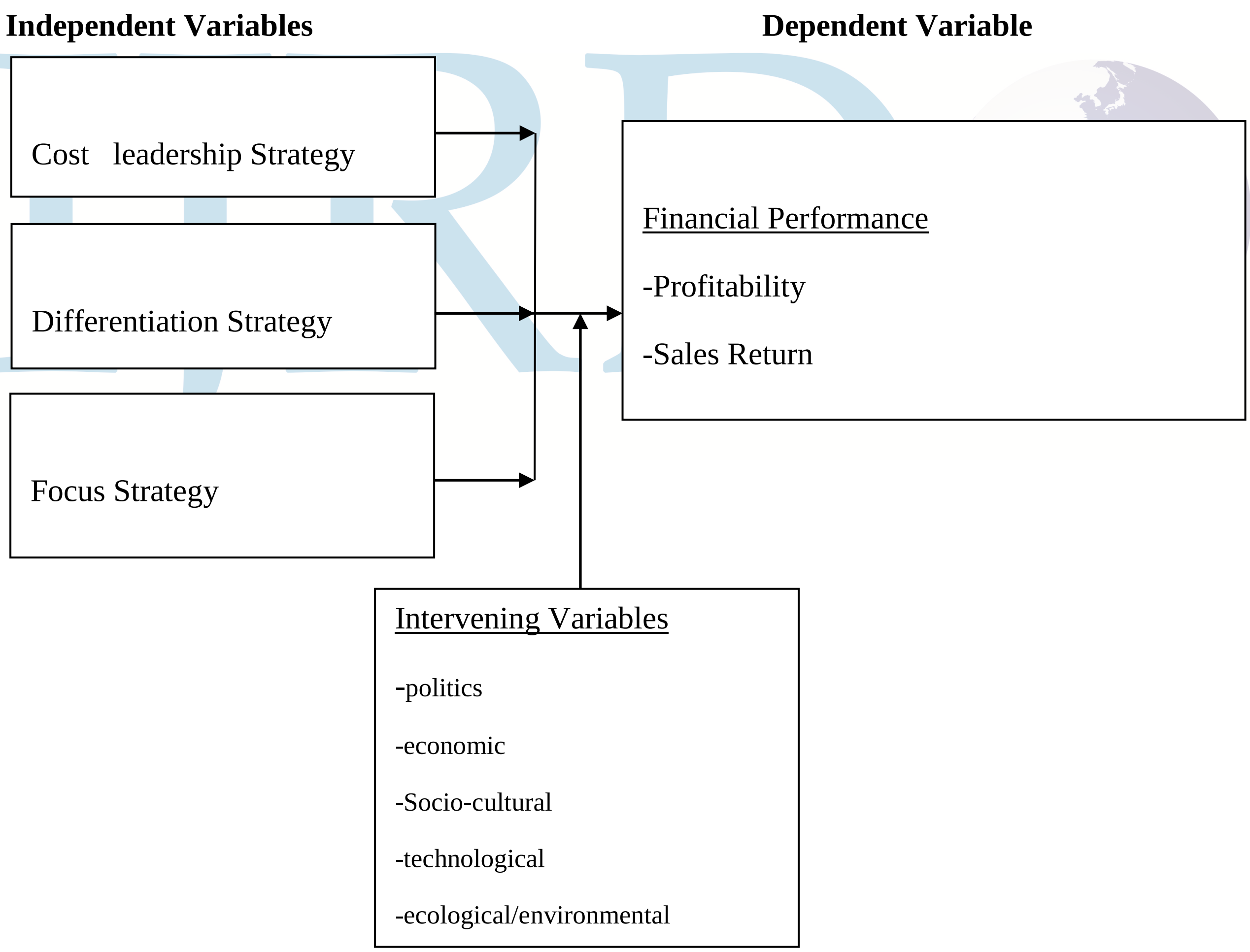

Figure 1: Analytical Conceptual Framework
Source: Researcher (2015)

3.0 RESEARCH DESIGN AND METHODOLOGY

This study used a descriptive research design. According to Mugenda and Mugenda (1999) the purpose of descriptive research is to determine and report the way things are and it helps in establishing the current status of the population under study. The design was chosen for this study due to its ability to ensure minimization of biasness and maximization of reliability of data collected. This design was chosen because it helps the researcher to have an insight into research problem by on organizational performance. This design was to provide further insight into research problem by describing the variables of interest.

Cooper and Schindler (2009) define a population as the total collection of elements about which the researcher wishes to make some inferences. Zikmund (2003) defines a population as "a complete group of entities sharing some common set of characteristics". This study targeted 12 registered smallholder tea factory companies managed by Kenya Tea Development Agency in Kiambu and Murang'a counties. The target population of this study was 60,540 smallholder tea farmers with 605 representatives and 1455 employees of the factories with 140 representatives (KTDA statistics, 2014). This is inclusive of tea farmers, employees and management of the factory companies.

Stratified sampling was used in addition to random, Factory management representative who were the respondents were purposely sampled; three managers from each smallholder tea factory were selected. Random sampling was done for tea farmers and employees respondents. The random sample was drawn from farmer's representatives and employee's representatives from each smallholder tea factories.

The sample population consisted of 150 respondents from Kiambu and Murang'a counties.

According to Mugenda and Mugenda, (2003), a sample size of between 10% and 30% is a good representative of the target population. A sample size of 150 respondents represents 18.63% of the target population. This was considered representative enough to allow generalization of the findings.

Table 1: Sample population

Category	**Target population**	**Sample size**	**%**
Management	60	36	60
Employees representatives	140	49	35
Farmer representatives	605	65	10.74
Total	805	150	18.63

For the purpose of this study the researcher used structured questionnaire to supplement the interviewing which offers a greater chance for the respondents to express and explain their answers easily.

4.0 DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 RESPONSE RATE

The sample size consisted of 150 respondents drawn from tea growers, factory employees and Managers of smallholder tea factories operating in Kiambu and Muranga counties in Kenya was used for the study; however only 129 questionnaires were returned, hence return rate of 86%, and 32% of the targeted population. Since the number of questionnaires collected represented more than 85% of the sample it was deemed adequate and sufficient for purposes of data analysis as suggested by (Field, 2005). The respondents completed the specially designed questionnaire largely based on the Likert Scale. The respondents were quite cooperative and the data provided was taken to be a true representation of the respondents views due to independence of the study carried out. The SPPS Version 17.0 was used to analyze the data.

4.2 COST LEADERSHIP STRATEGY INFLUENCE ON SMALLHOLDER TEA FACTORY FINANCIAL PERFORMANCE

The researcher sought to establish the effects that cost leadership has on smallholder tea factory's financial performance.

The findings of the study are as indicated in **Table 2.**

Table 2: Cost leadership strategy statements

Statement	Mean	STD Dev.
Improvement of the production of raw material by provision of enhanced crop husbandry management services	4.2016	0.86041
The company has preferential access to raw material and buys raw materials in bulk in order to reduce operational costs and benefit from economies of scale	4.0620	0.97429
The company employs new technology, improved road network, good fleet maintenance process to reduce field operations costs	4.1550	0.96379
Company employs process innovation that is, skilled in designing products for efficient manufacturing, high level of expertise in	3.6279	0.91915

manufacturing process engineering and efficient distribution channels to reduce wastage of raw materials in order to maximize on product output (i.e. conversion factor/out turn).		
The company outsources some functions which are not core and practice good purchasing approach to reduce maintenance and operational costs	4.1085	0.86819
The company has access to the capital required to make a significant investment in operational assets in order to improve on efficiency and effectiveness of operation and produce highly standardized product and cut on costs of overheads.	3.7752	1.00188

From the responses, the researcher sought to establish which of the cost leadership strategies mostly influenced the financial performance of the tea factory. This was done by comparing the means of the coded responses of the respondents and computing the percentages of the respondents who were in agreement with the responses provided.

Table 3: Sustainable production of raw material

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.3	2.3	2.3
	Disagree	3	2.3	2.3	4.7
	Undecided	10	7.8	7.8	12.4
	Agree	62	48.1	48.1	60.5
	strongly agree	51	39.5	39.5	100.0
	Total	**129**	**100.0**	**100.0**	

The responses indicated that majority of the respondents (87.6%) agreed that the smallholder tea factories participates in improvement of the production of raw material by provision of enhanced crop husbandry management services to tea growers in order to gain advantage on sustainable source of raw materials that they are delivered to their factory than its rivals (**mean = 4.20, Table 3**). This will in turn improve on the financial performance of smallholder tea factories through sustainable supply of raw materials and assure going concern of the smallholder tea factories. 39.5% of respondents strongly agreed, 48.1 % agreed, 7.8% were undecided, 2.3% disagreed while 2.3% strongly disagreed.

Since the purpose of competitive strategy is to build a sustainable competitive advantage over the rivals, this strategy is of significant importance as adopted by the smallholder tea factories to improve on their financial performance by backward integration. This is in agreement with statement that process, R&D, backward vertical integrations, and production automation may be pursued to reduce costs (Akan et al., 2006; Hooley et al., 2004).

'Backward Integration' arises when a company gains control over cost, availability and quality of the raw materials that are used in producing its products and services (Porter 1985).

Table 4: Bulk purchase of raw material

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.3	2.3	2.3
	Disagree	3	2.3	2.3	4.7
	Undecided	30	23.3	23.3	27.9
	Agree	40	31.0	31.0	58.9
	strongly agree	53	41.1	41.1	100.0
	Total	**129**	**100.0**	**100.0**	

72.1% of the respondents thought the smallholder tea factories has preferential access to raw material and buys raw materials in bulk in order to reduce on operational costs and benefit from economies of scale than rivals (**mean = 4.0620, Table 4**). 41.1% of the respondents strongly agreed, 31.0% agreed, 23.3% were undecided, 2.3% disagreed and 2.3% disagreed.

This competitive strategy is important as it agrees with Michael Porter's findings that to achieve cost leadership a business will usually need large scale production so that they can benefit from "economies of scale". Large-scale production means that the business will need to appeal to a broad part of the market (Porter 1985).

Porter (1985) introduces various cost drivers, their nature and characteristics within a business. One of the drivers is economies of scale. Economies of scale: exist when the costs of performing an activity decrease as the scale of the activity increases.

4.3 DIFFERENTIATION STRATEGY INFLUENCE ON SMALLHOLDER TEA FACTORY FINANCIAL PERFORMANCE

The study sought to determine the relationship between differentiation strategy and financial performance of smallholder tea factories.

The findings of the study are represented in **Table 5**

Table 5: Differentiation strategy statements

Statement	Mean	Std Dev.
The company employs strong sales team with the ability to successfully communicate the perceived strengths of the product. i.e. marketers and brokers	3.6667	1.05574
The company packages same product in different ways to target different markets	3.20931	1.2776
The company produces products of different quantities for different segments	3.8605	0.88162
The company have highly skilled and creative product processing team which produces different product for different markets i.e. production team	3.7674	1.23435
The company access leading scientific research and uses different technologies to vary product quality for different markets	3.3101	1.03681
The company uses selected high quality raw material to make product of unique quality attributes which appeals to buyers which reward the product's uniqueness with premium price	4.2868	0.97783

The company employs company branding and achievement of standard certifications to differentiate itself and products from others to customer through perceived superiority of its product over others in the market owing to traditional product feature.	4.1705	0.91108

Table 6: Strong sales team

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.3	2.3	2.3
	Disagree	24	18.6	18.6	20.9
	undecided	10	7.8	7.8	28.7
	agree	68	52.7	52.7	81.4
	strongly agree	24	18.6	18.6	100.0
	Total	129	100.0	100.0	

The study findings reveal that 71.3% of the respondents said that the smallholder tea factories employs strong sales team with the ability to successfully communicate the perceived strengths of the product. i.e. marketers and brokers (**mean=3.6667, Table 6**).18.6% of the correspondents strongly agreed, 52.7% agreed, 7.8 were undecided, 18.6% disagreed and 2.3% strongly disagreed.

Table 7: Product packaging for different markets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	13	10.1	10.1	10.1
	Disagree	30	23.3	23.3	33.3

	undecided	27	20.9	20.9	54.3
	agree	35	27.1	27.1	81.4
	strongly agree	24	18.6	18.6	100.0
	Total	129	100.0	100.0	

45.7% of the respondents said that the smallholder tea factories packages same product in different ways to target different markets (**mean = 3.20931, Table 7**). 18.6% of the respondents strongly agreed, 27.1% agreed, 20.9% were undecided, 23.3% disagreed and 10.1% strongly disagreed.

Table 8: Different products quantities different segments

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.3	2.3	2.3
	Disagree	6	4.7	4.7	7.0
	undecided	24	18.6	18.6	25.6
	agree	69	53.5	53.5	79.1
	strongly agree	27	20.9	20.9	100.0
	Total	129	100.0	100.0	

74.4% of the respondents said the smallholder tea factories produces products of different quantities for different market (**mean = 3.8605, Table 8**). 20.9% of the respondents strongly agreed, 53.5% agreed, 18.6% were undecided, 4.7% disagreed and 2.3% strongly disagreed.

Table 9: Different products for different markets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.3	2.3	2.3
	Disagree	27	20.9	20.9	23.3
	undecided	17	13.2	13.2	36.4
	agree	32	24.8	24.8	61.2
	strongly agree	50	38.8	38.8	100.0
	Total	129	100.0	100.0	

63.6% said the smallholder tea factories have highly skilled and creative product processing team which produces different product for different markets i.e. production team (**mean = 3.7674, Table 9**). 38.8% strongly agreed, 24.8% agreed, 13.2% were undecided, 20.9% disagreed and 2.3% strongly disagreed.

Table 10: Variety of product quality for different markets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.3	2.3	2.3
	Disagree	26	20.2	20.2	22.5
	undecided	48	37.2	37.2	59.7
	agree	32	24.8	24.8	84.5
	strongly agree	20	15.5	15.5	100.0

Table 10: Variety of product quality for different markets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.3	2.3	2.3
	Disagree	26	20.2	20.2	22.5
	undecided	48	37.2	37.2	59.7
	agree	32	24.8	24.8	84.5
	strongly agree	20	15.5	15.5	100.0
	Total	**129**	**100.0**	**100.0**	

40.3% of the respondents said the smallholder tea factories access leading scientific research and uses different technologies to vary product quality for different markets (**mean = 3.3101, Table 10**). 15.5% of the correspondents strongly agreed, 24.8% agreed, 37.2% were undecided, 20.2% disagreed and 2.3% strongly disagreed.

Table 11: Unique product quality and premium price

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.3	2.3	2.3
	Disagree	9	7.0	7.0	9.3
	undecided	3	2.3	2.3	11.6
	agree	47	36.4	36.4	48.1
	strongly agree	67	51.9	51.9	100.0
	Total	129	100.0	100.0	

88.3% of the respondents said the smallholder tea factories uses selected high quality raw material to make product of unique quality attributes which appeals to buyers which reward the product's uniqueness with premium price (mean = 4.2868). 51.9% of respondents strongly agreed, 36.4% agreed, 2.3% undecided, 7% disagreed and 2.3% strongly disagreed.

This strategy adopted by smallholder tea factories to improve their financial performance confirms Porter's and Jassim's arguments on differentiation strategy.

(Porter (1985) argued that the logic of differentiation strategy requires a firm to be truly unique at something or be perceived as unique. He concludes that, reward for uniqueness is a premium price.)

Jassim (2008) differentiation strategy primary focus is creating uniqueness such that the organization's goods and services are clearly distinguished from those of its competitors.

If a firm successfully earns a premium price in excess of differentiation cost then it returns will be above average resulting in improved organization performance.

Table 12: branding of product as superior

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.3	2.3	2.3
	Disagree	3	2.3	2.3	4.7
	undecided	17	13.2	13.2	17.8
	agree	52	40.3	40.3	58.1
	strongly agree	54	41.9	41.9	100.0
	Total	129	100.0	100.0	

82.2% of the respondents said the smallholder tea factories employs company branding and achievement of international standard certifications to differentiate itself and products from others to customer through perceived superiority of its product over others in the market owing to traditional product (**mean=4.1705**). 41.9% of the respondents strongly agreed, 40.3% agreed, 13.2% undecided, 2.3% disagreed and 2.3% strongly disagreed.

The overall findings on differentiation therefore imply that the smallholder tea factories uses selected high quality raw material to make product of unique quality attributes which appeals to buyers which reward the product's uniqueness with premium price hence improve on their financial performance. Differentiation leads to premium prices.

These findings are in agreement with a study conducted by Acquash and Yasai-ardekani(2006) who said in branding, a company is able to achieve a competitive advantage over their rivals because of the perceive uniqueness of their product and services.

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF THE FINDINGS

The study sought to assess Michael porter's competitive strategies influence on financial performance of smallholder tea factories in Kenya. A case of Kiambu and Muranga counties. The findings of the study were discussed and presented according to the objectives of the study. They are summarized as follows:

The regression analysis on cost leadership strategy as shown by the results shows that cost leadership has an influence on financial performance of smallholder tea factories with a beta coefficient of 0.604, the effect is very significant at (p=0.000). These results imply that cost leadership plays a very significant role in determining financial performance. Smallholder tea factories have adopted cost leadership strategy to certain extend in order to improve on their financial performance in term of net income.

The factories have succeeded in cost leadership due to the following internal strengths:

1. Sustainable supply of raw material by backward integration.
2. Bulk purchase of readily available raw material to benefit from economies of scale.
3. Use of new technology to improve service delivery and reduce overhead costs.
4. Efficient product production and distributions through innovations.
5. Outsourcing of non-core functions as a cost reduction measure.
6. Ability to access capital for financial investment

Sustainable supply of raw material through backward integration is the major competitive strategy adopted by the smallholder tea factories.

The regression analysis on differentiation strategy as shown by the results shows that differentiation Strategy has a little significant influence on financial performance with a beta coefficient of 0.067, the effect is not significant at (p=0.318). However, smallholder tea factories differentiate themselves and their products to a little extend in order to improve on their financial performance

The factories have succeeded in differentiation strategy due to the following internal strengths:

1. Use of strong sales teams.
2. Packaging of product for different markets.
3. Production of different products quantities to different segments.
4. Production of different products for different markets.
5. Production of product with variety of quality for different markets.
6. Unique product quality and which fetch premium price at the market.
7. Brand name as supplier of superior quality product.

The regression analysis on focus strategy as shown by the results shows that Focus Strategy has a significant influence on organizational performance with a beta coefficient of 0.190, the effect is significant at (p=0.023). These results imply that focus strategy has a direct influence on the financial performance of smallholder tea factories in Kenya.

The factories have succeed in adopting the focus strategy due to the following internal strengths:

1. Specific niche markets outlets.
2. Mass marketing for different products.
3. Customer satisfaction by selling quality product.
4. Production of one product for all markets.
5. Production of at least one product for each market segment.
6. Targeting of specific markets by distribution channels.

Some of the smallholder tea factory company's financial performances indicators that are likely to be affected by the competitive strategies adopted by the tea companies were assessed.

The research study findings were that profitability, sales return and market share are all financial performance indicators. Profitability is the major financial indicator, followed sales return and finally market share.

The net income (profits) for the smallholder tea factories were analysed for five financial years.

The following were deduced from the results:

1. There is fluctuation in the profits from one financial year to another; that there is inconsistent net income
2. There was a decline in the income from the year 2010/2011 to 2013/2014. There was a recovery in the financial 2014/2015 but still lower than net income earned in the year 2010/2011.
3. Net income return differ from one factory to another.

The relations between the three variables cost leadership strategy, differentiation strategy and focus strategy were analyzed. It was noted that cost leadership has a major influence on the financial performance, followed by focus strategy and the differentiation strategy was the least significant on the effect.

5.2 CONCLUSION

Cost leadership strategy plays a significant role in determining the financial performance of the smallholder tea factories in Kenya.

There is sustainable supply of raw material through improvement of the production of raw material by provision of enhanced crop husbandry management services, this ensure constant production of products for sale which sustains financial cash flow.

The study indicates that it is the most effective form of Michael Porter's Competitive Strategies that the smallholder tea factory companies use to improve financial performance among others, that is through investment on sustainable supply of raw material, availability and bulk purchase of raw materials, use of technology and innovation, outsourcing of non-core functions and opportunities to access capital to fund various projects.

Differentiation strategy is useful in making smallholder tea factories' product stand-out against competitor's products in the market. Smallholder tea factories which have adopted this strategy are able to create a niche for themselves in the market and even create customer loyalty. According to Pearce and Robinson (2005) differentiation strategies are based on providing customers with something that is different or unique that makes the company's strategic positioning distinct from its rivals. However, smallholder tea factories have adopted this strategy to a lesser extend as compared with cost leadership and focus strategies in order to improve on their financial performance. Smallholder tea factories should therefore apply differentiation for the benefit of their firms to their financial performance.

Focus strategy is also significantly used by the smallholder tea factory companies to improve on the financial performance. The tea factories have specific niche markets to sell their products. Such markets are direct sales local, direct sales overseas and Mombasa tea auction where sales agents are use to market the products.

5.3 RECOMMENDATIONS OF THE STUDY

The research made the following research recommendations based on the factors that were computed as contributing more significantly to the regression models of Michael Porter's Competitive Strategies on financial performance. The study found out that all the three Michael Porter's competitive strategies, that is cost leadership, differentiation and focus had an influence on financial performance in the smallholder tea factory companies operating in Kenya. The tea companies were also pursuing more than one competitive strategy to some levels. The companies were using either cost leadership strategy, differentiation strategy or focus strategy to improve the financial performance to some extent; however, the differentiation strategy had minimal influence as compared to the other two.

The study established that cost leadership strategy influenced financial performance by applying efficient technology to its business processes making the work more effective and reducing on unnecessary manpower. This lowers the operational costs of the business translating to lower production costs hence lowering cost of production, access to adequate supply of raw material increasing sales volume leading to better financial performance of the tea factories. While differentiation strategy ensured that the company's products are distinctly identified, customer loyalty created leading to retention of customers and attraction of new ones. Therefore the smallholder tea factories should embrace more on production of products of different quantities for different markets. This would greatly increase their market base because they will be in a position to access prospective customers who can buy in bulk and the local customers who can only afford small portions at a time. Therefore the policy makers and the management in the smallholder tea factories are advised to sustain and improve on implementation of the cost leadership strategy, differentiation strategy and focus strategy in order to continue enjoying good performance of the tea factory companies and prevent entrance of competitors from reducing their market share and hence their net income (profitability).

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