

COMPETITIVE STRATEGIES AND THE PERFORMANCE OF SUPERMARKETS IN NAIROBI CITY, KENYA

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ABSTRACT

The current business environment is characterized by high level of competition, as such it is necessary for firms remain competitive. The study sought to investigate how competitive strategies affect the performance of supermarkets in Kenya with a special focus on Nairobi city's ten leading supermarkets. The specific objectives were to find out the influence of Differentiation, Cost leadership and Focus strategies on the performance of supermarkets in Nairobi City. The research sought to find out why despite the increase in knowledge and use of competitive strategies, supermarkets are still witnessing decline in sales and eventual closure. Notably, this research was a descriptive research. A sample of 10 supermarkets were selected from the 102 supermarkets in Nairobi City that have been in existence for five years between 2013 and 2018. The study targeted 10 staff in each of the targeted supermarkets from top management, line managers and sales assistants. The sample was stratified into various categories from top management, line managers and sales assistants. Closed ended questionnaires were utilized in the collection of data and analysis was done via descriptive and inferential statistics. SPSS was used for data analysis. In carrying out the study, the validity as well as reliability of research instruments was ascertained. Use of tables and charts were heavily applied in the presentation of research results. From the findings an adjusted R² of 0.635 was obtained indicating that 68.2% variations in performance of supermarkets can be linked to competitive strategies (namely: cost leadership strategy, differentiation strategy and focus strategy). The findings further

indicate that unit increase in cost leadership strategies leads to a significant increase in performance of Supermarkets in Nairobi City, Kenya by 0.898 times. Secondly, a unit increase in differentiation strategies brings about a significant rise in performance of Supermarkets in Nairobi City, Kenya by 0.917 times. Lastly, a unit increase in focus strategies leads to a significant increase in performance of Supermarkets in Nairobi City, Kenya by 0.579 times. The study concluded that there is a significant and positive relationship between the competitive strategies and performance of Supermarkets in Nairobi City, Kenya. The study therefore recommends that the management of supermarkets should strive to consistently reduce operational and overhead costs. Management should also ensure that there are proper overhead controls and further ensure that advertisement costs as well as promotional costs are minimized. Secondly, the study recommends that management of supermarkets should consistently come up with innovations as this is a key aspect of differentiation which provides firms with dominant positions and lasting benefits specifically those that no other firm or business can imitate the unique features of the firm and Lastly, the study recommends that supermarkets should carry out market researches to establish the segment to focus on as this will grow the share of the market of the supermarkets through niche markets and narrow markets operations which are sometimes not considered by other market players.

Key Words: *competitive strategies, performance, supermarkets, Nairobi City, Kenya*

INTRODUCTION

The current business environment is an ever changing one with firms constantly competing for customers, market share and ultimately revenue. Competition in the global business environment led to various technological changes which brought about demand superior product quality for lower prices by customers (Dirisu, Ilioya & Ibiduni, 2014). In addition to this, the increasing level of globalization has led to the reduction of the life cycle of products. Consequently, emphases are now placed on competencies of firms and the creation of firm competitive advantage as these will provide an edge over other rivals. Raduan, Jegak, Haslinda and Alimin (2014) contend that business organizations are guided by various objectives; however, the two key objectives are achieving competitive advantage through market share and increased performance as compared to that of competitors.

Competition is neither regarded as an issue of coincidence nor bad luck as put forward by Porter (1980). Competition is dynamic however healthy towards the development of industries. Competition gauges the degree of market liberalization, progress and innovation in the modern economy. The retail sector (where supermarkets fall under) has experienced some level of growth over the years serving as a key growing economy indicator (Nguimke, 2015). Competitive strategies entail all the approaches, moves and techniques which firms poses or use to attract customers and improve its market position to withstand competitive pressure (Lin & Wu, 2014). In the retail sector such as that of supermarkets, some of the approaches felt are, product displays, packaging, increased operation hours, effort geared towards promotion (such as loyalty cards) and supermarkets accessibility and proximity. Firms which adopt competitive strategies guarantee towards enjoying superior market performances above other market players.

The high level of competition experienced in Kenya's retail sector has been a poised difficulty to strategic management of firms. These competitive forces are notably influenced by the severe quest of firms towards achieving improved turnover in sales as well as the satisfaction of customers (Lechner & Gudmundsson, 2014). For the success of any firms (supermarkets) operating in a highly competitive market, it must in place managers who have the capacity of inspiring their workers towards a vision that guarantees best performances in the business environment. It was concluded by (Olsor, 2017) that in the absence of adequate competitive strategies, commitment and drive from workers and management achieving and sustaining business success is a difficult task.

STATEMENT OF THE PROBLEM

Globally, supermarket performance and those of other retail outlets is important as retail outlets are responsible for transferring products from the producers to the consumers. According to a report by (KNBS, 2016.), wholesale and Retail trade accounts for 8.4% of Kenya's GDP employing over 238,500 Kenyans. Shift in economic activities and technological advancements have imposed new and different competitive pressures for firms, thus translating into the necessity for competition (Murgor, 2014). For purposes of remaining competitive, Supermarkets over the years seek to employ various strategies for serving

different segments of consumers. However, it becomes noteworthy, that despite the increase in knowledge and use of competitive strategies, supermarkets in Kenya have witnessed decline in sales and eventual closure. A recent study by (Adan, 2016) on declining sales at Nakumatt and Uchumi supermarkets, which were among the top five players in the industry, attributed the poor performance to competition and poor management. Ways for succeeding amidst the present fluctuation and turbulent competitive market has been an issue of contention to various firms. This is because the market conditions are changing rapidly which is accompanied with changes in demand by customers, markets, products, global boundaries, technologies and other processes. In light of these, strategies that translate into improved performance of firms are outlined and established with matching firm operations (activities) such as service and product innovations and product quality which match the changing needs of customers that are linked with share of the market rise due to attraction of new customers as well as retention of existing ones. Firm activities which are linked with improved performing strategies also include advocacy for technology use, new markets discovery, excellent customer support and service, external finance use, extensive advertising, cost effectiveness emphasis as well as employee productivity concern. Over the year's linkages between competitive strategies and performance have sparked the attention of researchers. Studies have been carried out by Waema (2013), Chege (2014), Chengeta (2014), Baraza and Arasa (2017) and Olson and Slater (2015). These studies were however based on different context other than the Supermarkets in Nairobi, Kenya. The current exercise sought to evaluate competitive strategies' effect on performance of supermarkets in Nairobi City, Kenya.

GENERAL OBJECTIVE

The objective of this research was establishing the effect of competitive strategies on Supermarkets' performance in Nairobi city, Kenya.

SPECIFIC OBJECTIVES

1. To assess the effect of cost leadership strategies on the performance of supermarkets in Nairobi City, Kenya.
2. To determine the effect of differentiation strategies on the performance of supermarkets in Nairobi City, Kenya.
3. To ascertain the effect of focus strategies on the performance of supermarkets in Nairobi City, Kenya.

THEORETICAL REVIEW

Competitive Advantage Theory

This theory was proposed by Porter in 1985. The theory reposes the view of businesses bringing about policies which will result in goods and services of high quality for selling at the market. As emphasized by Porter (1985), national strategies should focus on growth in productivity. Competitive advantage therefore is based on the view that low costs labor is ubiquitous as well as natural resources not always ingredients that lead to improvement in the

economy. Competitive advantage therefore is a term depicting the ability of firms in gaining resources and attributes for performing at levels higher than those of other market players operating within the same sector or industry (Porter 1980). Over the years, due to modern issues relating to superior firm performance in present competitive conditions of markets, the study of such competitive advantage has been of interest to various researchers.

One way in which a business can achieve competitive advantage is through their ability to provide low costs services and products as compared to other rival firms. Another way in which a business has some form of competitive advantage is via offering similar products and services but with outstanding features and charge slightly higher price than that of its competitors. Using this approach, a business will be able to maximize on sales and profits while offering value to its clientele. The former approach is often referred to as cost advantage while the latter is referred to as differentiation advantage (Dobbs, 2014).

Resource-Based View Theory

Wernerfelt (1984) is linked with the introduction of Resource-based view. The view here is that competitiveness in the business environment can come to place through the innovation of delivering value to customers at a superior level of others. Barney (1991) assert that literature on this notion have focused on strategically identifying and using firm resources for purposes of having a developed and sustainable competitive advantage. Luo (2003) put forward that theorists in the field of international business have provided various explanations regarding firms' failures and success cutting across different boundaries which was largely in consideration of the competitive nature or level of their local alliances or subsidiaries in the developing markets. Gupta et al. (2011) observed that local knowledge received from a local alliance or subsidiary forms a key component of vital resources which are utilized in providing value or value creation in line with the local demands.

RBV Theory over the years has evolved as a key theory which is usually applied in explaining persistency for different scenarios of differences of performance between firms (Barney and Griffin, 1992). The theory views firms as units with variety of unique capabilities and resources which are considered rare, non substitutable and inimitable that can present these firms with long term sustained competitive advantage (Galbreath 2005). Therefore, firm resources are regarded as assets that are intangible and tangible which are controlled and/or owned by firms. Capabilities conversely relate to firms' ability in exploiting and combining resources via the different routines of firms for purposes of achieving set goals (Amabile et al, 1996). In the context of the ongoing research, resources entail both internal and external resources utilized by supermarkets for purposes of applying competitive strategies and having enablement through capabilities of firms to improve innovative firm performance.

EMPIRICAL REVIEW

Cost Leadership Strategies and Performance

An empirical research was carried out by Munyiri (2014) on competitive strategies and its relationship with customer maintenance for the case of banking in the Kenyan context. The enquiry relied on descriptive survey design where a total of 44 banking institutions were the sample of the study. Research data was sourced with the aid of a questionnaire which was based on drop and pick later method. Using regression analysis, findings revealed costs leadership to predict customer maintenance significantly and positively. The study was however centered on cost leadership strategy and its influence on customer retention in Kenya's banking sector. It is important to note that the retail industry is unique when compared to the banking industry as the two industry operate under varying regulatory and operating environment. The seeming research gap was addressed by focusing of retail supermarkets in Nairobi City, Kenya.

Waema (2013) did an empirical enquiry on competitive strategies and Dairy firms profits with emphasize on Kenya. 15 dairy firms in Kenya were used as the study sample. The research data was extracted with the use of research questionnaires. The study analysis was based on descriptive analysis where means and standard deviations were heavily utilized. Research results revealed a linkage between cost leadership as well as Dairy companies' performance in Kenyan context. The research notably was based on descriptive analysis, in addressing this, the current research was based on both descriptive and inferential (multiple regression) technique. Thus, addressing the methodological gap in literature.

Chengeta, (2014) did an enquiry on cost leadership strategies and performance of the advertising institutions. A sample of sixty-one respondents was utilized. Descriptive research design was utilized in the research enquiry. Multiple regression analysis was used which was based on various cost leadership indicators. The outcome from the analysis showed that outsourcing contributed to cost reduction. Notably, the study was biased towards the advertising industry and as such based on different dynamics when compared to the retail sector. In line with this, the current investigation focuses on the retail sector, specifically supermarkets in Nairobi City, Kenya.

Olson and Slater (2015) did a research on competitive strategy influence on companies' performance. The investigation which applied descriptive analysis focused on the context of United States of America (USA). Performance was assessed using balance score card. Where balance means the various measures of performance are equally important in all settings. Multi-measure approach was also used in the study and it was indicated that competitive strategies influence the performance of firms. The study was however based on descriptive analysis and the study was carried out in the context of United States of America. USA being a developed country has key difference with Kenya that is a developing nation. These differences range from market size, market integration and cultural diversity. It is as a result of this information that the ongoing research sought to ascertain the extent by which

Supermarkets performance is influenced by competitive strategies with emphasis on Nairobi City, Kenya.

Differentiation Strategies and Performance

Chege (2014) did an investigation on the competitive strategies used by Nakumatt Holdings to achieve economic benefits. Proper directions to clients and improved use of technology were the strategies employed by Nakumatt Holdings. The study successfully brought into light the various strategies used by Nakumatt. The study however did not outline competitive strategies influence on performance of Nakumatt Holdings. Similarly, the exercise was centered on just Nakumatt Holdings, whereas the current study ascertained the degree in which competitive strategies affect performance of Supermarkets in Nairobi City, Kenya.

An investigation was undertaken by Munyiri (2014) on competitive strategies' influence on customer maintenance for the case of commercial banks in Kenya. Enquiry was based on a census technique as it focused on all the 44 Kenyan banks. The research was based on primary data where research data was sourced with the aid of a questionnaire which was based on drop now and then collect later technique. The outcome from the analysis of the study revealed differentiation strategies to be directly linked to customer maintenance. The research however concentrated on banking institutions in Kenya. The current study is unique as it focused on the retail sector and specifically supermarkets in Nairobi City, Kenya.

Baraza and Arasa, (2017) did an investigation on competitive strategies and how these strategies affect Kenya's manufacturing sector performance. Using descriptive technique, the inquiry was based on East Africa Breweries Limited (EABL). The respondents of the study were the top-level management at the East Africa Breweries Limited. Using primary data source through questionnaires and interviews, descriptive and inferential analysis were employed. The study brought forward that differentiation strategies significantly impact on performance of East Africa Breweries Limited. The current study sought to add value in literature by looking at performance in line with BSC approach.

Focus Strategies and Performance

Waema (2013) embarked on a research on competitive strategies and Dairy companies' performance with focus on Kenya. The sample of the study comprised of fifteen dairy companies in Kenya. Data used was based on research questionnaires. The analysis of the study was based on descriptive technique which was presented using frequency distribution tables and standard deviations and means where presented therein. The study outcome revealed that focus strategy to be related to the performance of Kenyan dairy companies. Despite the study shedding light on the linkage between focus strategy and firm performance, the limitation of the analysis lies on the fact that it was carried out on Dairy companies as this is based on different characteristics when compared to the retail sector which is the focus of the current investigation.

Baraza and Arasa, (2017) carried out an empirical analysis on competitive strategies influence on performance in Kenya's manufacturing companies. Descriptive research method

was utilized in the enquiry where research focus was on East Africa Breweries Limited (EABL). Top level management at the East Africa Breweries Limited made up the research population. Primary data was sourced with the use of both interviews and questionnaires. Research data analysis was both inferential and descriptive analysis. Focus strategy was established to have a positive and significant influence of performance of East Africa Breweries Limited. The study though was on performance and focus strategy; however, the manufacturing sector was the investigation focus. Supermarkets operating within Nairobi City, Kenya are the current emphasize.

RESEARCH METHODOLOGY

This investigation applied descriptive research design. The target population of this study was 102 supermarkets in Nairobi City, Kenya which are fully operational for the periods 2013 to 2018. The employees of these supermarkets were targeted to provide the needed information concerning the area of study. These employees comprised the Supermarket staff, top managers, sales assistants and line managers. This investigation applied purposive sampling technique the 102 supermarkets in Nairobi City, Kenya that have been in existence from 2013 to 2018. Purposive sampling was suitable for this research because it helped in the selection of only those individuals who understood the research purpose and those with relevant information that helped in fulfilling the purpose of the research. Therefore, the study used 10% of 102 supermarkets in Nairobi City, Kenya. Therefore, the sample size for this population was 10 supermarkets operating in Nairobi City, Kenya. Within the 10 supermarkets 20 top managers, 30-line managers and 50 sales assistants were sampled. Research respondents therefore were in total 100 Supermarket staff, top managers, sales assistants and line managers. The researcher aimed to get 10 responses from each of the 10 supermarkets sampled. Data was sourced using questionnaire. This instrument is easy to administer, allows the respondent privacy in voicing opinions, saves the time of the researcher and is easy to administer (Saunders et al., 2009; Chandran, 2004). The questionnaire was based on closed questions. The questionnaire for the study was divided into five sections namely section A: provides the questions on demographic factors, section B: Cost Leadership, section C: Differentiation, Section D: Focus strategy and Section F: Performance of Supermarkets in Nairobi City County. Descriptive analysis was applied for purposes of providing the basic features summary which include standard deviation and means. Additionally, inferential analysis specifically multiple regression technique was applied for purposes of drawing conclusions and practical recommendations which allow for generalization for the entire research population. Therefore, inferential statistics was used to ascertain competitive strategies effect on supermarkets performance for Nairobi City, Kenya. The Multiple regression model that was used is presented by the equation below:

$$PERF = \beta_0 + \beta_1 CLS + \beta_2 DS + \beta_3 FS + e$$

Where: PERF – Performance; β_0 – Constant; CLS – Costs Leadership Strategies; DS – Differentiation Strategies; FS – Focus Strategies; β_1 to β_3 = Regression coefficients; e = Error term

RESEARCH RESULTS

The first objective was to examine the effect of cost leadership strategies on performance of Supermarkets in Nairobi City, Kenya. The regression results reveal that cost leadership strategies significantly and positively influence the performance of Supermarkets in Nairobi City County as revealed by the p value of 0.000. A unit increase in cost leadership strategies leads to a corresponding rise of 0.898 in performance of Supermarkets in Nairobi City, Kenya.

The second objective was to assess the effect of differentiation strategies on performance of Supermarkets in Nairobi City, Kenya. From the findings it was apparent that differentiation strategies have significant effect on performance of Supermarkets in Nairobi City, Kenya. A unit increase in differentiation strategies bring about an increase of 0.917 times in performance of Supermarkets in Nairobi City, Kenya.

The third objective was to establish the effect of focus strategies on performance of Supermarkets in Nairobi City, Kenya. The regression results reveal a p-value of 0.000 and a coefficient of 0.579. The therefore serves as an indication that unit increase in focus strategies leads to a corresponding rise of 0.579 in performance of Supermarkets in Nairobi City, Kenya.

INFERENCE STATISTICS

The study carried out correlation analysis which sought to establish the direction and extent of association between the research variables. The correlation test was based on Pearson correlation analysis. The study established that competitive strategies had significant and positive correlation with performance of supermarkets in Nairobi City, Kenya. Specifically, cost leadership strategy had significant and positive correlation with performance of supermarkets in Nairobi City, Kenya. Differentiation strategy had significant and positive correlation with performance of supermarkets in Nairobi City, Kenya. Focus strategy had significant and positive correlation with performance of supermarkets in Nairobi City, Kenya.

The results from the regression model indicated that there was an R-square of 0.682 with an adjusted R-square of 0.635. These statistics therefore imply that 68.2% variations in performance of supermarkets can be linked to competitive strategies (namely: cost leadership strategy, differentiation strategy and focus strategy). The results for the ANOVA test are reveal that the model had a a p-value of 0.000 which therefore mean that the model was significant. The model was therefore considered adequate for the estimation of data. The inferential analysis of the study was based on multiple regression analysis. The regression analysis was used to determine the significance of each competitive strategy on performance of supermarkets in Nairobi City, Kenya. Based on the regression model, the following function was derived as indicated below:

$$Y = -1.824 + 0.898X_1 + 0.917X_2 + 0.579X_3 + \varepsilon$$

Where: X₁=Cost leadership; X₂= Differentiation strategy; X₃= Focus strategy

The regression outcome showed that the performance of supermarkets in Nairobi City, Kenya decreases by 1.824 in the absence of competitive strategies.

INTERPRETATION OF FINDINGS

Cost Leadership Strategies

The first specific objective of the study was to examine the effect of cost leadership strategies on performance of Supermarkets in Nairobi City, Kenya. The regression results in Table 4.9 reveal a p-value of 0.000 and a coefficient of 0.898. This therefore serves as an indication that unit increase in cost leadership strategies leads to a corresponding rise of 0.898 in performance of Supermarkets in Nairobi City, Kenya. The findings therefore imply that cost leadership strategies have significant effect on performance of Supermarkets in Nairobi City, Kenya.

The study findings concur with those of Munyiri (2014), Waema (2013), Chengeta, (2014), Olson and Slater (2015). Munyiri (2014) while focusing on the banking sector in the Kenyan context established that cost leadership to predict customer maintenance significantly and positively. Waema (2013) did an empirical enquiry on competitive strategies and Dairy firms profits with emphasis on Kenya. 15 dairy firms in Kenya were used as the study sample. Research results revealed a linkage between cost leadership as well as Dairy companies' performance in Kenyan context.

Chengeta, (2014) while focusing on cost leadership strategies and performance of the advertising institutions found that cost leadership (outsourcing) contributed to cost reduction. Olson and Slater (2015) did an investigation which focused on the context of United States of America (USA). The study found that cost leadership strategies had significant influence the performance of firms.

Differentiation Strategies

The second specific objective of the research was to assess the effect of differentiation strategies on performance of Supermarkets in Nairobi City, Kenya. Table 4.9 indicates a p-value of 0.000 and a coefficient of 0.917 which indicate that differentiation strategies have significant effect on performance of Supermarkets in Nairobi City, Kenya. As such, a unit increase in differentiation strategies bring about a corresponding rise of 0.917 in performance of Supermarkets in Nairobi City, Kenya.

The study findings on the effect of differentiation strategies on performance agree with that of Chege (2014) found that differentiation strategies have significant effect on performance of Nakumatt Holdings. Furthermore, Munyiri (2014) found that differentiation strategies were directly linked to customer maintenance and hence performance of commercial banks in Kenya. Baraza and Arasa, (2017) also found that differentiation strategies significantly impact on performance of East Africa Breweries Limited.

Focus Strategies

The third specific objective of the study was to establish the effect of focus strategies on performance of Supermarkets in Nairobi City, Kenya. The regression results in Table 4.9 reveal a p-value of 0.000 and a coefficient of 0.579. The therefore serves as an indication that unit increase in focus strategies leads to a corresponding rise of 0.579 in performance of Supermarkets in Nairobi City, Kenya. The findings therefore imply that focus strategies have significant effect on performance of Supermarkets in Nairobi City, Kenya.

The study findings are in line with those of Waema (2013) who did a research on competitive strategies and Dairy companies' performance with focus on Kenya. The study outcome revealed that focus strategy to be related to the performance of Kenyan dairy companies. Furthermore, Baraza and Arasa, (2017) carried out an empirical analysis on competitive strategies influence on performance in Kenya's manufacturing companies. Focus strategy was established to have a positive and significant influence of performance of East Africa Breweries Limited.

CONCLUSION

The study conclusions go in line with the various findings of the study. On the effect of cost leadership strategy on performance of Supermarkets, the study concluded that cost leadership strategy significantly affects the performance of Supermarkets in Nairobi City, Kenya. Increasing levels of cost leadership leads to improvement in the performance of Supermarkets in Nairobi City, Kenya.

With respect to the effect of differentiation strategies on performance of Supermarkets, the conclusion of the study was that differentiation strategies significantly affect the performance of Supermarkets in Nairobi City, Kenya. Lastly, the study concluded that focus strategies significantly predict the performance of Supermarkets in Nairobi City, Kenya. as such, the more the supermarkets are engaged in focus strategies the better their performance in return.

RECOMMENDATIONS

The recommendations for policy and practice are informed by the various conclusions of the study. The study concluded that cost leadership strategies significantly predict the performance of Supermarkets in Nairobi City, Kenya. The study therefore recommends that the management of supermarkets should strive to consistently reduce operational costs. The key objective of this is offer products and services at the lowest prices in the market. Management should also ensure that there are proper overhead controls and further ensure that advertisement costs as well as promotional costs are minimized.

Secondly, the study concluded that differentiation strategies are key in predicting the performance of Supermarkets in Nairobi City, Kenya. The study therefore recommends that management of super markets should consistently come up with innovations as this is a key aspect of differentiation which provides firms with dominant positions and lasting benefits until other firms or business are able imitate the unique features of the firm and these can still

be recovered through the establishment of new opportunities and strategies which will bring about another form of competitive advantage as well as new market entry barriers.

The study concluded that focus strategies have significant effect on performance of supermarkets in Nairobi City, Kenya. The study recommends that supermarkets should carry out market researches to establish the segment to focus on as this will grow the share of the market of the supermarkets through niche markets and narrow markets operations which are sometimes not considered by other market players.

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