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Effect of Cost Leadership Strategy on The Performance of Seed Companies in Trans Nzoia County, Kenya

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Abstract
The study aimed at establishing the effect of cost leadership strategy on performance of seed companies in Trans Nzoia County. Implementation of the findings and recommendations of the study would be of significant to several stakeholders for instance, they would aid the government in guiding the policy framework that would enhance sustainable seed production hence national development. The study was anchored on the contingency theory and theory of Mintzberg's 5Ps of Strategy. This study used a survey design as it assumed quantitative methods in data collection. The target population consisted of the functional heads and the employees of the five seed crop companies in Tran Nzoia a total of 553 respondents. The sample of the study was 232 respondents. The primary data was collected through questionnaires. The sample of the study was 232 respondents. The primary data was collected through questionnaires as the secondary data was collected through literature review. Prior to the commencement of data collection, the study obtained all the necessary documents, including an introduction letter from the University which will necessitate application for a permit from the National Commission for Science Technology and Innovation (NACOSTI). Respondents were then supplied with tools of data collection through the departmental heads, given time to respond to them and return them to their department heads for onward collection. Quantitative data gathered from closed ended questions were first coded and then analyzed descriptively and using inferential statistics and presented using frequency distribution and cross tabulation tables. The study found a positive and significant relationship between cost leadership strategy and organizational performance at the seed companies in Trans Nzoia County. The correlation results showed a positive and significant association between cost leadership and performance. The study concludes that there is a positive and significant relationship between production strategy and organizational performance. The study recommends that companies should have a good market research and understanding on what the critical cost factors customers appreciate and value in their product then only focus on them

Keywords: Cost Leadership Strategy, Organizational Performance, The Seed Companies.

Introduction

Crafting of strategies directs top management in describing the business their organization is in, the results it strives for, and methods it will use to achieve the results Pearce and Robinson, (2011). Organizations craft approaches to handle matters that are related to offering quality services and products as described in details below.

Growth strategies refer to the strategic planning tools that offer a framework to help company executives, senior managers and marketers devise strategies for future growth (Blackburn et al., 2013). These strategies include; market penetration, product development, and diversification strategies. PepsiCo in the United States has implemented market penetration as its primary intensive growth strategy. The strategy supports business growth through increased sales to attain a bigger market share. For instance, the company uses aggressive marketing in attracting more customers. The company's strategic objective linked to their intensive growth strategy is to minimize costs and prices to attract more consumers despite market saturation (Calloway, 2018).

Hsu (2016) insist that product strategy encompasses three different mixes that is the market and needs, key features and differentiators, and business goals. Product strategy requires a long-term vision by the organization. It is a serious work of research in which it requires to have the data on the different market needs, and the business goals that the product aims to undertake. Gautam (2015), in his reference on the high technology companies explains that products strategy and its utilization of imagination is rather a process that should be approached in a very skillful manner. The outcomes of the products strategies may not be always favorable and in turn lead to losses in investments by organization.

Pelijhan (2018) explains that the product strategy is the combination of market strategies that the firm or organization has over a product in the market. Studies have shown association between strategy formulation and firm performance. Specifically, Woldie (2012) indicated that a mechanism of formulating an effective strategy improves performance. Katsvamutima et al (2014), established that strategy formulation and implementation improves profitability, efficiency, thus form the basis of competitive advantage in dynamic environments in food manufacturing industry in Zimbabwe.

A study by Mbithi et al (2015) established that introduction of other new products other than sugar has largely been minimal while improvement of existing products has adopted through packaging and branding. The study further established that the resultant performance was positive in total output turnover, sugar sales quantities, capacity utilization was moderate while profitability after tax gave fluctuating results. That the performance was fairly responsive to improvement of product processes procedures but poor in introduction of new products since actualization is yet to be realized. Whereas this study concentrated on sugar products in Kenya, the suggested study will endeavour to concentrate in the seed production companies in Trans Nzoia county Kenya. The study will endeavour to establish how the seed companies manage the cost-based-strategy and how it impacts on the productivity of the firms.

Cost Leadership on Performance of Seed Companies

The purpose of strategy in line with Ramaswamy and Namakumari (2011) is to take advantage of the distinctive benefits of the organization in facing the challenges of the atmosphere. A technique begins with a priority and a burden of however, best to use the restricted resources of three the organization. The productive companies build their strategic priority to create their core competencies and semi-permanent competitive blessings, so they're going to serve

the important keep a copy for the business level methods of the business units within the corporation. To amass competitive advantage in any market, a firm must be ready to deliver a given set of client benefits at lower prices than competitors or offer customers with a bundle of advantages its rivals cannot match.

Barney and Hesterley (2010) asserts that few layers in the reporting structure; basic reporting connections, little corporate staff, and concentrate on slender scope of business capacities are components of authoritative structure that permit firms to understand the maximum capacity of cost leadership strategies. They posit that cost leadership may be a cost pioneer yet that does not as a matter of course infer that the organization items would have a low cost. It is important that the organization can for case, charge a normal cost while taking after the ease authority methodology and reinvest the additional benefits into the business.

Cost leadership involves becoming the low-cost firm in an activity and can operationalized as low input costs, economies of scale, experience, products/process design and low pricing (Johnson, 2011). Low input costs involve locating operations close to materials and cheap labor; economies of scale require large scale operations and experience is where more experience leads to efficiency. Johnson further opines that products/process design influence efficiency by making products from cheap standard materials while low pricing is made possible by having products that are close to competitors in terms of features. The firm can then make small price cuts to compensate the slightly lower quality (Johnson, 2011).

Materials and Methods

A good research design should have a clearly defined purpose and consistency between the research questions and the proposed research method (Sekaran, 2013). This study used a survey design as it was suitable to obtain quantitative data using questionnaires as the tools of data collection. The target population consisted of the functional heads and the employees of the five seed crop companies in Tran Nzoia a total of 553 respondents. This study utilized Yamene formula in establishing the sample of 232 from the study population. Pearson Product Moment was used to establish the reliability index where if a reliability co-efficient of greater than 0.70 was obtained on all the quantitative items, the tool was considered reliable. The information from the quantitative data analysis was presented in terms of means and standard deviations. Further, the data was processed for correlational analysis.

Descriptive Results

The findings were examined through descriptive statistics of the study sample based on the specific objectives. It is vital to explain how the mean values were interpreted though out this study. Mean values close to the high end of the scale (closer to 5) indicate high level and in contrast, mean values close to the lower end of the scale (1) indicate low level of the values. The study was computed for descriptive analysis in terms of means and standard deviation and the results were tabulated in table 1.

	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Cost	3.77	.922	-.691	.200	.447	.397
Performance	4.00	.891	-.765	.200	.555	.397

The study investigated the effect of cost leadership strategy on performance of seed companies. The motive was to investigate whether seed companies that are perceived to be cost leaders record high Sales Volumes and higher Employee Satisfaction compared to

companies that are not cost leaders. The descriptive results showed a mean of 3.77 SD=.922). Based on this results, it is an indication of that most seeds companies felt that they have high sales and that on average the employee of the seed companies are satisfied. The correlation results showed a positive and significant association between cost leadership and performance. The regression results showed that performance of the seed companies is influenced by cost leadership such companies that an increase in cost leadership scores or efficiency by one unit, the performance increase by 0.342 units. The findings from this study are in line with findings by Johnson (2011) who found that cost leadership strategy involves becoming the low-cost firm in an activity and can operationalized as low input costs, economies of scale, experience, products/process design and low pricing for one to find competitive advantage in the market place. They argued that for a firm to remain competitive it has to maintain low input costs which involves but not limited to, locating operations close to materials and cheap labor; economies of scale require large scale operations and experience is where more experience leads to efficiency. To gain this advantage, Johnson (2011) argues that the firm should go further by making small price cuts to compensate the slightly lower quality.

Correlations Analysis

Table 2

Correlation between functional strategy variables and performance

		1
Cost	Pearson Correlation	1
	Sig. (2-tailed)	
Performance	Pearson Correlation	.642**
	Sig. (2-tailed)	.000

The correlation between the independent variables and the Dependent variable, (performance) shows that the Functional Strategies, specifically the cost function relate to performance and the relation is positive. The results suggest that seed companies in Trans Nzoia County with above average functional strategy, outperform their counterparts with below average in Functional strategies.

Regression Assumptions

Prior to adopting a regression model results, the assumptions on which the model is built are assessed. The four assumptions of linearity, normality multicolinearity and heterscedasticitic are assessed. The multicolinearity assumption: regression assumes that the independent variables in the model are not highly correlated (multicolinear). This assumption is tested by observing correlation matrix of the IVs. The correlation results (table 2) indicate no multicolinearity issues since no pair of IVs are highly correlated (r >0.7). Also multicolinearity is assessed using Variance Inflation Factor. VIF values less that 10 are considered an indication of no significant multicolinearity. VIF results (Table8) suggests the assumption is met.

Table 3

Collinearity Statistics

	Tolerance	**VIF**
Cost leadership strategies	.796	1.256

No heteroscedastisticity assumption assumes that the regression errors are constant across all values of the dependent variable. A plot of regression residuals against the predicted

values is used to check for the assumption. The plots of the residual (errors) should not show any pattern or funning out for the assumption to be met.

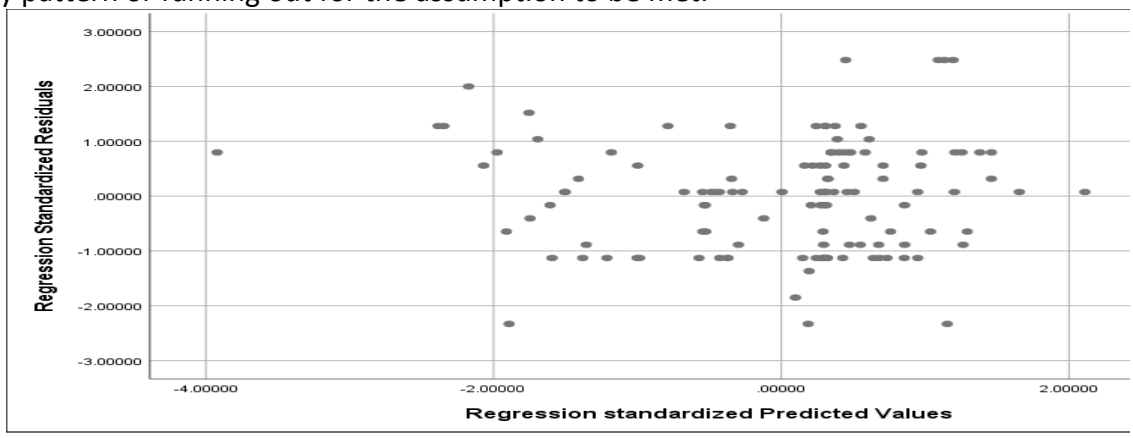

Figure 1: Heteroscedastisticity Results

As seen from the results in Figure 3. The assumption is not significantly violated. No particular patterns emerge. The assumption is therefore met The normality assumption was assessed by inspecting histogram of standardized residuals (errors). The results show that the shape of the histogram is similar to normal curve; with mean zero and standard deviation one. Therefore normality assumption is met.

Regression Results

Since all the four independent variables are significantly correlated with performance, they were all entered as IVs in the regression analysis (Table 4). The regression analysis typically has three important results, the first one is model summary. The model summary results in table 4 show that the functional strategies in the model explain 55.0% of variance of performance. However, the functional strategies accounts for 53.7% of variance when adjusted for number of functional strategies in the model. The R^2 values indicate that functional strategies are important determinant of performance.

Table 4

Model Summary; Effect of functional strategy on performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.741[a]	.550	.537	.606

Second regression results are the ANOVA. Assess the fitness of the overall model. The ANOVA results for this study presented in table 5 shows that the F ratio is significant, it is concluded that the model is a fit model ($F_{(4,142)}$=43.340, p<.001). Therefore, performance of seed companies in Tran Nzoia County can significantly be predicted from Functional Strategies. Functional strategies are can be a differentiating factor in performance of seed companies.

Table 5
ANOVA; Effect of functional strategy on performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	63.768	4	15.942	43.340	.000[b]
	Residual	52.232	142	.368		
	Total	116.000	146			

Regression Coefficients; Effect of Cost Strategy on Performances
The final but important regression results are the regression coefficient result. It is the core of hypothesis testing in the regression analysis as it assesses the significance of each variable. In this study cost leadership is a significant predictor of performance (b=.342, p<.001) meaning that an increase in cost leadership scores for seed companies, the performance in terms of sales and employee satisfaction also increase. For example, holding other factors constant, an increase in cost leadership score by 1 units the sales and employee satisfaction increase by about 0.342 units.

Table 6
Regression Coefficients; effect of functional strategy on performances

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	.680	.265		2.561	.011
	Cost leadership	.342	.071	.354	4.787	.000

Thus the model of functional strategy of production functional strategy and performances is of the form. Performance =.680 +.34Cost

Conclusions
From the study findings, it is concluded that is there is a positive and significant relationship between cost management strategy and organizational performance. The study further concludes that it is important for their survival and ability to meet their financial obligations. It is now clear that organizations have refocus on cost leadership efforts in ways that achieve above-average returns over competitors through low prices by driving all components of activities towards reducing costs. They have to be truly cost leaders.

Recommendations
The study recommends that increase sales and employee satisfaction is one of the outcomes seed companies should pursue relentlessly because it is important for their survival and ability to meet their financial obligations. They now have to refocus their efforts in ways that achieve above-average returns over competitors through low prices by driving all components of activities towards reducing costs. Usually companies compete on cost or differentiation. For companies that choose to be the cost leaders have a number of cost reducing sources along their value chain. Sourcing for cheap but quality supplies is one of them. They should have a good market research and understanding on what the Critical success Factors customers appreciate and value in their product then only focus on them. For example, in farming, the customers focus on the rate of germination and disease resistance, the firms should research

on providing these qualities at minimum cost. Such customers do not pride in other things like fancy packing which raises cost.

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