# COMPETITIVE STRATEGIES AND PERFORMANCE OF FOREIGN OWNED RESTAURANTS IN NAIROBI COUNTY, KENYA

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**A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

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# DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

Signed: ______________________ Date: ___________________________

**VINCENT OMONDI ASEWE**

**D61/67883/2013**

This research project has been submitted for examination with my approval as the University Supervisor.

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# DEDICATION

I dedicate this project paper to family and many friends. A special note of gratitude to my dear wife Davina for her prayers, selfless patience and undying support during the challenges of this work.

To my lovely children Christian and Cyril for their infantile, rock -solid and imbuing belief that God makes all things possible.

To my parents, the Late John William Asewe and Rose Asewe for believing in education and setting in motion this lifelong journey.

To all my other family members and friends, finishing this project would have been impossible if it were not for your constant impetus to conclude it. Also for your wonderful support and great input, you are much appreciated.

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To God, who makes all things possible, even this one - All glory unto Him.

I would like to thank Dr. Jeremiah Kagwe, first and foremost, for agreeing to be my supervisor. I am grateful for his systematic guidance constructive criticism, open door policy and above all for his time and effort as he supervised me throughout the project process.

I would like to acknowledge some of my classmates who encouraged me to finish what we started together. Thank you all.

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| | |
|---|---|
| **ANOVA** | Analysis of Variance |
| **CBD** | Central Business District |
| **CS** | Competitive Strategy |
| **GDP** | Gross Domestic Product |
| **IO** | Industrial Organization |
| **QMP** | Quality Management Principles |
| **R&D** | Research and Development |
| **ROE** | Return on Equity |
| **SPSS** | Statistical Package for Social Sciences |

## ABSTRACT

There has been great competition in the business environment because firms endeavor to outdo one another. Hence, it is vital for firms to perform better than their competitors. The general objective of this study was to determine the influence of competitive strategies on performance of foreign owned restaurants in Nairobi City County. Specifically, the study sought to establish the competitive strategies employed by foreign owned restaurants in Nairobi City County, and to establish the effect of competitive strategies on the performance of foreign owned restaurants in Nairobi City County. This study was based on Michael Porter’s Competitive Forces Model and the Resource Based View theory. The study used a descriptive cross-sectional research design. This study's target population was all the 47 foreign owned restaurants operating in Nairobi County CBD. For primary data collection purpose, this study divided the population into five strata, Italian, Chinese, Ethiopian, Indian and French. Purposive sampling was used to select individual respondents from each stratum. The researcher selected two respondents from each of the 47 foreign restaurants selected for the study giving a total of 94 respondents. Primary data was utilized in the study. Structured questionnaires were employed to obtain primary data using the Likert Scale. The targeted respondents in this study were employees in the managerial positions of the foreign owned restaurants in Nairobi City County. This is because they are involved in the organizations’ management and have a broad understanding of the affairs of these organizations. The primary data collected by the questionnaire was coded and entered into SPSS. Descriptive statistics in form of frequencies and percentages was used to analyze the descriptive elements of the study. Correlations and regression analysis was calculated to draw inferences to the entire population. The study concluded that foreign owned restaurants use competitive strategies. These strategies included cost leadership strategy, differentiation strategy, and focus strategy. The study also concluded that competitive strategies have a positive effect on the organization performance of foreign owned restaurants in Nairobi City County. Hence, use of cost leadership strategy, differentiation strategy and focus strategy result to improved organization performance of foreign owned

restaurants in Nairobi City County. Further, the study concluded that focus strategy had the greatest effect, followed by cost leadership strategy, while differentiation strategy had the least effect. The study recommends that the all stakeholders involved in the management of the foreign owned restaurants in Nairobi City County should use the findings of this study as they point out the importance of using competitive strategies. Using these findings, they will be informed on the best competitive strategies to use so as to boost the performance of their restaurants. From the study findings, they can formulate policies that will enable them reap the most from the use of a particular type of competitive strategy.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

There has been great competition in the business environment because firms endeavor to outdo one another. To gain competitive advantage a firm has to develop strategies and this enables it to maintain competitiveness which can be sustained (Thompson, Strickland & Gamble, 2010). According to Lester (2013), strategies that are generic make firms outstanding and enable them carry out the day to day business activities and are therefore significant in determining the industry or market to be in competition with. A firm that exhibits improvement in performance as compared to its competitors is one which plans adequately as well as executes its competitive strategies in an appropriate manner (Jonsson & Devonish, 2013). As Atikiya (2015) posits, a firm that executes its competitive strategies appropriately has a better chance at exploiting the existing opportunities that guarantees it a market that is ready as compared to its competitors.

Relevant theories advanced in support of this study are Michael Porter's Competitive Forces Model as well as the Resource Based View. According to Michael Porter, the extent of competition and nature of the industry is determined by five forces namely: the buyer's power in bargaining, threat of substitute products, jockeying among current contestants, suppliers' bargaining power and the threat of new entries (Porter, 1985). The theory was relevant to this study as it explains ways through which industries become competitive and thus help managers in developing competitive strategies. The Resource Based View points out that a firm's uniqueness of resources, greatly determines how the firm performs. This theory guided this study in explaining the significance of the resources of the firm in determining the level of competitiveness as well as their performance.

In the Kenyan restaurants business, competition has been intense with foreign firms from countries such as South Africa setting shops locally. Nairobi has specifically seen the establishment of a number of foreign owned restaurants. The firms that have established operations are from South Africa, Zimbabwe, Ethiopia, Europe, America and Asia. These firms have changed the landscape of competition in the industry (Valipour, Birjandi & Honarbakhsh, 2013). While most of these firms are branded and have an expanded scope of offer, the recent years have seen the establishment of foreign owned food restaurants specializing solely in food products of specific countries. Customer service in these foreign owned food restaurants is given a new approach as these outlets deliberately opt for very specific markets (Dirisu, Iyiola & Ibidunni, 2013).

### 1.1.1 Competitive Strategies

McCarthy (2011) describes a strategy as a plan used by an organization in meeting its long term objectives through using available resources in the present changing business environment efficiently and effectively. Strategy is a fundamental concept in strategic management (Nagle & Holden, 2012). A competitive strategy is the manner in which an organization competes in a specific field of business. It is the way in which a company can distinctively gain a competitive edge over other companies (Aaker, 2011). It is very necessary for a company to have competitive strategies but these strategies have to be sustainable. Wadongo et al., (2010) notes that competitive strategy is the process by which firms strive to attract new customers, fight off competitive pressures and solidify their market position. It is the approach taken by firms to remain competitive.

Porter (1998) postulated the following generic competitive strategies; differentiation, focus and cost leadership. Under cost leadership strategy, the firm seeks to produce its commodities using the least cost in the industry (Porter, 1998). With regard to cost leadership, a firm has to be the cost leader and not any other firm that wants to be the cost leader. Differentiation requires the uniqueness of the firm especially on attributes that the consumers greatly value (Porter, 1998). This strategy chooses an attribute(s) that most consumers consider significant and it is positioned in a unique manner so that the needs of the consumers are met. Porter (1998) states that focus strategy is that which rests on an industry's choice of competitive scope that is narrow. A business chooses one or more segments within the industry and comes up with strategies of serving these while excluding others. A firm that uses this strategy aims at attaining a competitive advantage from the target segments that were selected.

Buckley, Prescott and Pass (1998) formulated competitiveness' framework that constitutes three segments: the first component was competitiveness performance followed by the competitiveness potential while the third is the management process. Competitiveness entails combining both the created and inherent assets and designing the processes that facilitate the transformation of assets into economic outcomes. Bartlett and Ghoshal, (1989) however, argue that many approaches to firm competitiveness exist. These are the competency approach which examines the firm's internal factors (the firm's capability to innovate, firm strategy and structure) and other intangible and tangible resources. High level of competitiveness is witnessed among high performing organizations since they exhibit a greater ability to develop and employ capabilities compared to their competitors. If a firm is cost effective, operationally efficient and lays great emphasis on quality, then more valuable goods will be delivered to its customers which increases the firm's competitiveness (Hammer & Champy, 1993). The current study will use differentiation, cost-leadership and focus as the indicators of competitive strategies.

### 1.1.2 Organization Performance

According to Richard, Yip, Johnson and Devinne (2009), firm performance is organization's ability to attain its mission by proper governance, management that is sound as well as persistently rededicating until results are attained. Thompson, Friedlandler as well as Pickle (1968), consider performance as a theme that continuously happens in paradigm of management. Efficient non-profits are considered as adaptable, driven by mission, entrepreneurial, focuses on the customer, oriented by outcome as well as sustainable. The initiative of firm performance enables the organization to adjust to increased levels of uncertainty which hinder the attainment of its mission. This initiative seeks to help each organization in every sector of the economy, businesses, charitable organizations and government. The effectiveness of an organization can be measured through examination of the activities it conducts so as to attain its goals. The most notable aspects that can be used to gauge the performance of an organization are the outputs and their effects (Valmohammadi & Servati, 2011).

No consensus has been reached on the best or even the most sufficient measure of firm performance. This is because, there are many varied views of what desirable outcome of organizational effectiveness is and because performance is often characterized by the theory and purposes of the research being performed. Performance measurement focuses on the internal processes to determine how effective as well as efficient an action is, with regard to the metrics given. The indicators of performance measurement are the proxies for the phenomena of the organization (Henri, 2003).

Some use financial measures as a criterion to judge the success or failure of a decision or action. Richard et al., (2009) argues that how an organization performs involves the following firm outcome areas that are specific: financial performance that is profits, product market performance that is sales, ROI, ROA, shareholder return that includes the added economic value as well as total shareholder return and the market share. There are, however, challenges in using these measures; for starters most managers are unwilling to allow researchers to access their financial records thus most studies that are available rely on perceived rather than actual results. Other challenges to using financial measures include; savings are inconsistent from year to year, constantly changing environments make it more challenging to compare savings many years after outsourcing a contract against inside operations costs that had been earlier discontinued and some organizations outsource services from the onset hence providing no basis for comparison (Bryce & Useem, 1998).

### 1.1.3 Hospitality Industry in Nairobi

This industry forms a big part of the tourism sector in Kenya. It comes second after the agricultural sector in providing foreign exchange for the country. The umbrella body for the Kenyan hotel industry is the Kenya Association of Hotelkeepers and

Caterers (KAHC) whose duty is to bring together duly registered hotels, camps as well as lodges that operate in the country. Kenya Hotels and Restaurants Authority (KHRA) that was established under the Hotels and Restaurants Act, deals with regulating, rating and licensing of hotels in Kenya. The Kenya National Bureau of Statistics (2016) reports of an increase in investment in the accommodation and food services industry between 2015 and 2016 due to high-profile global summits held in Nairobi. The sector accounted for 0.8 percent GDP in 2016. Total employment in this area accounted for 74.7 percent of jobs recovered due to growth in Kenya's economy and increase and expansion of more restaurant chains and other local joints.

Recent investment worth millions of dollars by global and local restaurant chains such as KFC, Java Houses, Subway, Teriyaki, Cold Stone Creamery, Domino's Pizza, Steers and Café Deli, among others has expanded their chain of restaurants in Nairobi County. According to National Restaurant Association of Kenya (NRAK) forecast of 2016, foreign owned food chain service is rapidly growing within the Restaurants and Service Industry. It has captured 47.8 percent of income spent by households. The same report points out the increasing trend in eating out habits by Kenyan families and urban workers in Nairobi.

There have been developments with regard to Food and Beverage Services which have been necessitated by the development of diverse range of food service operations. The ever increasing competition has made the customers' perceived value of experience and the services' quality as a main differentiator between operators that seek to attract the same consumers. An aspect that mainly defines this industry is that it concentrates on satisfying the consumer and it depends heavily on providing excellent level of services. Customers value loyalty to a brand and the companies that are associated ensure the provision of exemplary services (Lilicap & Cousins, 2006).

### 1.1.4 Foreign Restaurants in Nairobi

In the Kenyan restaurants business, competition has been intense with foreign firms from countries such as South Africa setting shops locally. Nairobi has specifically seen the establishment of a number of foreign owned restaurants. The firms that have established operations are from South Africa, Zimbabwe, Ethiopia, Europe, America and Asia. These firms have completely changed the landscape of competition in the industry (Valipour, Birjandi & Honarbakhsh, 2013). While most of these firms are branded and have an expanded scope of offer, the recent years have seen the establishment of foreign owned food restaurants specializing in cuisines of only specified countries. The restaurants' outlook and interior decor is distinctly different from other local and foreign owned food restaurants. Customer service in these foreign food restaurants is given a new approach as these outlets deliberately opt for very specific markets (Dirisu, Iyiola & Ibidunni, 2013).

The Kenyan restaurant business scene has witnessed a radical transformation. Not only have new foreign players come in, but also a revolution in the strategies that the existing players employ. Most of the restaurants have engaged in aggressive promotional campaigns while others have decided to venture on specific niche of the market. The upmarket places and the suburbs of the City have become host to Italian, Chinese, Ethiopian, Indian and French cuisine specialists. Majority of these restaurants are situated in Lavington, Upper Hill, Kilimani, Parklands and Westlands areas of the City. The foreign foods business has become very important such that big restaurants are also offering these foreign specific countries' delicacies. This research intended to establish whether the competitive strategies being applied by the foreign food restaurants in Kenya have an influence on their performance.

## 1.2 Research Problem

It is vital for firms to perform better than their competitors in the industry. In a growing economy, many firms wish to gain the largest market share to ensure they can generate enough profit to serve the purpose for their existence (Sumer & Bayraktar, 2013). As many foreign restaurants from countries such as South Africa set shops locally, a need for better quality services increases if a firm is to remain competitive. To facilitate sustainable growth and take up new opportunities, innovation and differentiation become an important function (Deloitte & Touche, 2015). This has stiffened competition, and for restaurant companies led to differentiation and focus strategy, so to remain relevant they need to align their competitive strategies (Arasa & Gathinji, 2014).

The hospitality industry in Kenya is facing dynamic changes that include changes in the needs of customers, increased demand for high quality staff, increased level of staff turnover and a rise in demand for professional services. This shows that restaurant owners and managers need to come up with strategies that enable their businesses to be competitively positioned (Mugo, 2014). Demand for restaurant services is on the rise as individuals focus on other economic activities hence seeking for ready quality foods and services. Besides, the restaurant industry is very unique. It faces very low barriers for entry and high barriers to exit. This increases competition from new entrants into the industry and rivalry among players (Wanja, 2015). Again, the buyers have a high bargaining power because there are many restaurants and thus they have a choice. Suppliers however do not have high bargaining power because they are many. According to Krishna (2014), the services offered by the restaurants do face a high threat from substitute products. Owing to the uniqueness of this industry and the conclusions of the previous studies, it is worth carrying out this study.

Previous studies reveal that strategic management, which is about competitiveness in the marketplace leads to better performance better than it leads to little change or reduced performance (Ludwig & Pemberton, 2011). Other studies have shown that the connection between strategy and performance was inhibited by situational variables, examples being more concentration on manufacturing and profitability (Alhakimi & Alhariry, 2014; Aremu, & Oyinloye, 2014). However, a study by Abou-Moghli (2012) showed that there was a zero connection between performance and strategy. Many studies have been conducted regarding competitive strategies firms from various sectors have adopted in Kenya. One of them is Gathoga (2015) who concentrated on the competitive strategies Kenya's commercial banks use. This study found out that Kenyan banks utilize a number of ways like safe custody of depositors' money and superior customer service for them to keep on being competitive. He also made a conclusion that another strategy that had been used was expansion into other regions through opening new branches.

Murage (2016) did an analysis on the petroleum industry's competitive strategies and established that differentiation alone is used by service stations as a way of gaining competitive advantage over the other service stations in the industry. Karanja (2014) conducted a survey on real estate firms' competitive strategies using Porter's generic model perspective and found out that most of these firms did not fully utilize these strategies to their advantage. Mutegi (2013) did a research on the competitive strategies used by Nairobi's supermarkets and found out that the strategies adopted include cost leadership, focus and differentiation.

The studies above showed that competitive strategies existed in the firms that the studies were carried out on. The studies however did not assess the influence of competitive strategies on how the firms studied performed. Similarly, these studies done in Kenya did not relate competitive strategies to performance; yet others done elsewhere revealed mixed conclusions. This thus justifies why it was necessary to do further research on this particular area. Thus, the research question this study sought to answer is: What competitive strategies are used by foreign owned restaurants in Nairobi County and what effects do these strategies have on the performance of the restaurants?

## 1.3 Objective of the Study

The objective of the study was to establish the effect of competitive strategies on performance of foreign restaurants in Nairobi County. The study's specific objectives were:

i) To determine the competitive strategies employed by foreign owned restaurants in Nairobi City County.

ii) To establish the effect of competitive strategies on the performance of foreign owned restaurants in Nairobi City County.

## 1.4 Value of the Study

This study's findings will be used as a reference by scholars, students and researchers who might want to undertake further studies in the same knowledge area. This study will also be significant to both researchers and scholars in identifying research gaps in this field which will prompt and guide them in executing further studies.

The outcome of this study will also aid the various regulatory agencies and the government when developing legislation and regulatory framework around restaurants' competitive strategies. The regulators will thus consider this study as they formulate policies that will create a favorable environment for investors.

The foreign owned restaurant owners and managers in Nairobi County and other regions as well will understand how to formulate and put into effect the competitive strategies that will help boost their performance. Other players wishing to join the hospitality industry will have an understanding of the competitive strategies employed and therefore stand a higher chance of success.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

The chapter entails theoretical literature review, competitive strategies together with its relationship to the performance of the organization. This chapter further outlines both local and global empirical reviews and research gaps.

## 2.2 Theoretical Review

This research was based on Michael Porter's Competitive Forces Model and the Resource Based View Theory.

### 2.2.1 Industrial Organization Economic Theory

The relationships between strategy content, QMPs and organizational performance are supported by the Industrial Organizational Economics theory of the Structure-Conduct Performance framework (Porter, 1981). The conduct represents the strategy content of the organization; the concept of quality management practices can be represented by the industry structure.

IO and the Industrial Economics Theory are macro- and microeconomic approaches respectively to explain the interactions between firms and markets. Economic theory was founded on a book by Adam Smith in 1776 who discussed the principles of economic theory

The main proposition of Structure Conduct Performance paradigm is that the market structure influences conduct of firms which in turn influences performance. Barthwal (2004) describes market structure to arise from four aspects of the market like degree of seller and buyer concentration, degree of product differentiation and conditions of market entry. Hence market structure can be monopolistic, oligopolistic or perfect competition market structure (Bain, 1968). In terms of buyer concentration, perfect competition markets have high concentration of buyers while in oligopsony, there are few large buyers and large number of small scale sellers.

The industrial organizations theory finds application in strategic management research since the central analytical aspect of IO theory may be applied in assessing the strategic choices which firms have in various industries (Porter, 1981). The SCP model determines the industry structure, hence the external environment. Moreover, knowing a business' status in its context is important in developing a CS (Chen, 2011).

Miles and Snow (1978) developed strategy content model which explains how firms operating within an industry environment can device their strategies to match their external and internal organizational circumstances. They discuss that a firm can adopt strategies like prospecting, defending, analyzing or reacting to their environment. Their main proposition is that adopting prospecting, analyzing or defending strategies lead to better performance compared to reacting strategy. Prospectors are firms which innovate and consistently look for new markets. (Miles & Snow, 1978).

### 2.2.2 Resource Based View Theory

Among the early studies on the concept of Resource Based View (RBV) was by Penrose (1959) who proposed that an organization's uniqueness is derived from the heterogeneity rather than the homogeneity of the productive resources available. The concept of an organization's resources heterogeneity is the main theme of resource based view. According to Penrose (1959) both the internal and external growth of an organization through means such as merging and acquisition and diversification can be determined by how well the organization's resources are deployed. An organization is made up of a combination of valuable resources and these resources can only contribute to an organization's competitive advantage if they are deployed and used in a way that these productive resources are easily accessible to the organization. As such firms have to understand what their strengths and weakness are so that they can come up with strategies on how to beat their rivals using the available resources (Wernefelt, 1984).

RBV holds that organizations valuable resources are the ones that determine the performance and competitiveness of the firm. RBV states that the major forces that influence and impact on the competitive advantage and how excellent an organization performs is derived from the features of the capabilities as well as the resources of the company which hard to imitate and are valued (Barney, 1991). Through RBV firms can design and carry out their firm strategy by looking at where their capabilities and internal resources stand (Sheehan & Foss, 2007).

While a there is direct relation between how a company performs and the performance of its own offerings in the market, organizational performance is also impacted indirectly by the resources that are utilized in the production process (Wernerfelt, 1984). Therefore, for organizations to achieve above average performance and returns they have to identify, know and acquire these resources that are core to the development of the products that are demanded by the customers. A firm's resource has to be valuable, scarce and hard and costly to copy for the organization to achieve sustained competitive edge (Barney, 1991). Two assumptions govern RVB. One, it assumes that organizations that operate in an industry that are viewed as being in the same strategic circle may differentiate themselves through the resources they possess. Two, it assumes that these differences may last way into the future because these resources cannot be transferred from one company to another because they are not portable (Barney, 1985).

The theory was essential for this study since it acknowledges the processes of the organization, the sharing of knowledge as well as working relationships that are close as resources that could be utilized to make improvements in organizations' competitiveness. If a foreign owned restaurant in Nairobi County possesses a resource that is unique and difficult to imitate, it creates a competitive strategy using the resource and achieve competitive advantage over rivals. This in turn improves its overall performance.

## 2.3 Competitive Strategies and Organization Performance

The basis of any good strategy lies in the actions taken by management to improve company performance, solidify their competitive position in the long term and be above competitors (Peder, & Richard, 2013). Aykan and Aksoylu (2013) noted that CS forms the basis through which a business can achieve competitive advantage. Peder and Richard (2013) continue to state that in order to achieve above average profitability, a firm must seek to have a competitive edge. This is because if buyers prefer the company's products more, their sales volume are increased and so is the ability to command higher price increases. The result is higher earnings, greater return on investments and other financial performance indicators.

Strategy can either be explicit or implicit. When a strategy that creates value is implemented by a firm and is at the same time not being implemented by any potential or existing competitor of the firms, competitive advantage is created. This can be achieved by firms seeking to add value to their products for greater quality at a price relative to competitors, production of totally new products, improvements on the current products as well as making the same product increase in availability. According to Porter (1980, 1985), dynamism in the external environment require firms to adopt competitive strategies to gain competitive advantage.

Ludwig and Pemberton (2011) states that some organizations seek to improve performance and standing in the market by being the lowest cost provider while others focus on having superior products or individualized customer service or capability or competency development that outshines those of rivals. This shows organization strategic behavior which brings about the organization's strategic approaches that sets it apart from rivals, builds customer loyalty and win a sustainable competitive advantage. Porter (1990) discussed the five forces model in relation to competition and identified factors in the environment which influence the capability of an organization to position it to an advantage. He came up with factors such as threat of new entries in the market, the power of both buyers and suppliers to bargain, threat from substitute goods and finally the competitive rivalry amongst market players.

Dirisu, Iyiola and Ibidunni (2013), states that with the increased competition in the present world of business, it becomes hard for organizations to access the opportunities around it. This thus brings about the need for organization to exercise strategic management. Strategic management has a crucial role in ensuring that all the organization's resources are deployed in an efficient manner in the face of a turbulent and changing environment. With this in mind, organizations aiming to survive in a turbulent environment must come up with strategy that guides their decisions. For market success and survival, organizations therefore adopt various strategies in the face of competition.

A study was carried out by Teeratansirikool, Siengthai, Badir and Charoenngam (2013) about CS and the performance of the firm: the mediating role of performance measurement. Their study revealed that it in general, all competitive strategies influence the performance of firms in a positive and significant way via the performance measurement in Thailand market. However, Yasar (2013) revealed that no significant association existed between the performance of the firm and competitive strategies in India's Gaziantep carpeting industry. The competitive strategies that contributed to the performance of the firm in a positive and significant manner had more weight.

## 2.4 Empirical Literature Review and Research Gaps

A study was conducted by Jonsson and Devonish (2009) on competitive strategies among hotels in Malaysia. The study which was exploratory in nature established that firms whose performance was superior were those that made correct applications of competitive models of strategy while those that had unclear competitive models experienced inferior performance. Their study made a confirmation that an association between the satisfaction of the client, organizational performance and improvements in the competitive position of the activity of a company existed. However, the study didn’t consider the impact of CS on how the firm performs and it was taken undertaken in a different context.

A study conducted by Yasar (2010) did an analysis on CS and business performance of a carpeting sector in Beijing. This research revealed that transient management theory which states that competitive advantage might be unsustainable in the long run and is therefore unsuitable in influencing the performance of the carpeting industry, outlives the competitive strategies. This study was however conducted in a different context and hence its findings cannot be generalized in the local context.

A study conducted by Zekiri and Nedelea (2011) on strategies for achieving competitive advantage in Romania asserted that if a firm aims at pursuing the cost leadership strategy, then it must produce at a cost that is low. It is further posited that a company can gain in production costs, economies of scale as a result of proprietary technology, and cheap raw material etcetera. In the same light, it stated that the purpose for the strategy of cost management is for the firm to produce at lower costs compared to its competitors. This underscores the importance of work efficiency.

A study conducted by Arasa (2014) on the association between the organization's performance and competitive strategies: a case of Kenya's mobile telecommunication firms showed that there is a great competition which forces many companies to formulate strategies that are competitive in order for them to survive. The findings of regression analysis carried out showed a weak positive association between performance and competitive strategies. This study however focused on mobile telecommunication companies while the current study focused on foreign owned restaurants in Nairobi County, Kenya.

In a study carried out by Kungu (2014) on assessing how effective CS by commercial banks were: A case of Equity Bank Kenya, the research established that the bank employed various competitive strategies which included, cost leadership, focus, differentiation and combination strategy. It also revealed that the banks implement changes in their organizations that enable them remain competitive in Kenya's banking sector. This study, however, addressed the banking sector and did not relate competitive strategies with performance.

In a study conducted by Kwasi and Acquaah (2015) on manufacturing strategy, firm performance and competitive strategy in Ghana, it was established that firms in the particular sector had to be more competitive as well as focus on the customer by formulating strategies that create positive relations between them and the consumers as well as the suppliers, enhance quality, and improve how their goods and services are distributed and delivered within the given market segment. This study was descriptive in nature and so it did not address the causal effect between competitive strategies and performance. The current study addressed this cause and effect.

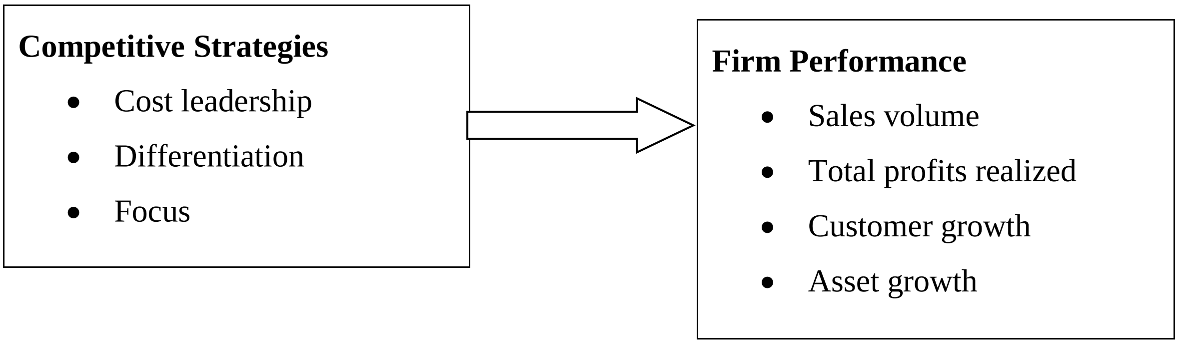
A study was conducted by Arrawati, Misra together with Dawar (2015) on the competition and efficiency of banks and the empirical evidence from Indian market was used. Results showed that the trend for competition between 1996 and 2004 increased and thereafter the level of competition fell. The Granger Causality Test showed that competition affects efficiency in a positive manner and vice-versa. However, their study was conducted in a different context and addressed efficiency while the current studies addressed organizational performance.

In another study carried out by Mathooko together with Ogutu (2015) on Porter’s five competitive forces (PFCF) framework as well as the other attributes that affect the choice of response strategies employed by Kenya's public universities, the study found out that Porters’ five competitive forces framework had a big influence on the choice of response strategies used by the public universities, the threat from new entries constituting that which influences the most. Other determinants of choice of response strategies include the changes in government regulations and policies, the amount of pressure exerted by stakeholders, higher education reforms, some universities' unethical response strategies and the location of the university. The study concentrated on factors influencing the choice of response strategies but didn't address the association between performance of the organization and competitive strategy which current study focuses on.

## 2.5 Conceptual Framework

Conceptual framework in figure 2.1 shows how focus, differentiation and cost leadership strategies influence performance of foreign restaurants in Nairobi City County.

Figure 2.1: The Conceptual Model




**Source: Researcher (2018)**

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

The section contains information about this study, population and sample that will be selected for the study. Data collection, data analysis and presentation techniques that were employed in the study are highlighted in this chapter.

## 3.2 Research Design

The research design used was descriptive cross-sectional, to investigate impacts of CS on organizational performance of foreign restaurants in Nairobi County. Descriptive design was utilized as the scholar needed to find out the state of affairs as they exist (Khan, 2008). This research design is appropriate as the researcher is familiar with the phenomenon under investigation but want to know more in terms of the nature of relationships between the study variables. In addition, a descriptive research aims at providing a valid and accurate representation of the study variables and this helps in responding to the research question (Cooper & Schindler, 2008).

## 3.3 Population of the Study

A research population refers to a collection of individuals or objects that exhibit similar characteristics or traits. The trait is usually common to all individuals within the population (Kothari, 2004). This study's target population was all the 47 foreign owned restaurants operating in Nairobi County CBD. For primary data collection purpose, this study divided the population into five strata, Italian, Chinese, Ethiopian, Indian and French. Purposive sampling was applied in selecting individual respondents from every stratum. The researcher chose two respondents from each of the 47 foreign owned restaurants selected for the study giving a total of 94 respondents.

## 3.4 Data Collection

The research utilized primary data. Structured questionnaires were employed in obtaining primary data using the Likert Scale. The targeted respondents in this study were employees in the managerial positions of the foreign owned restaurants in Nairobi City County. This is because they are involved in the organizations' management and have a broad understanding of the affairs of the organizations.

Two respondents from each organization were chosen upon which the questionnaires were administered. The structured questionnaire contained close-ended and open – ended questions. Close-ended questions consisted of more structured responses which brought out more tangible recommendations. The ratings on various attributes was tested using the closed ended questions which helped in the reduction of responses that are related so as to obtain responses that are more varied.

## 3.5 Data Analysis

Primary data was entered into SPSS. Descriptive statistics was used to analyze the descriptive elements. Correlations and regression analysis was calculated to draw inferences to the entire population.

Multiple regressions analysis was utilized to analyze whether an association exists between one dependent variable and one or more independent variables. Organization performance was the dependent variable while the independent variables were: cost leadership, differentiation and focus strategy. Multiple regression model used is as represented below.

$Y= \alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon$

In which;

Y= Performance of foreign owned restaurants in Nairobi City County

$\alpha$ = Constant Term

$\beta_i$ = Beta Coefficient of variable i which measures whether there is responsiveness of Y to change in i

$X_1$ = Cost leadership strategy

$X_2$= Differentiation strategy

$X_3$= Focus strategy

e=Error term

# CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

The section deals with data analysis, findings and interpretation. A presentation of findings is done in form diagrams, charts and continuous prose form. All this is done objectively.

## 4.2 Questionnaire Response Rate

The researcher administered 94 questionnaires out of which 86 were properly and returned. This reveals an overall successful response rate of 91.5%.

## 4.3 Demographic Characteristics

The study made inquiry on the background information of the respondents and their place of work. The respondent's information was with regard to age and position. The scholar was also seeking to find out the number of years the restaurants had been in operations as well as the number of employees.

### 4.3.1 Age of Respondents

To start with, the study inquired about the age. Results in Figure 4.1 show that 26% of the respondents were aged 41–45 year, 22% were aged 36 – 40 years, 17% were aged 31 35 years while 14% were aged 46 – 50 years. Another 14% were less than 30 years while only 7% were more than 50 years. Many of the respondents were middle aged.

This can be explained by the fact that this study focused on employees in the managerial positions.

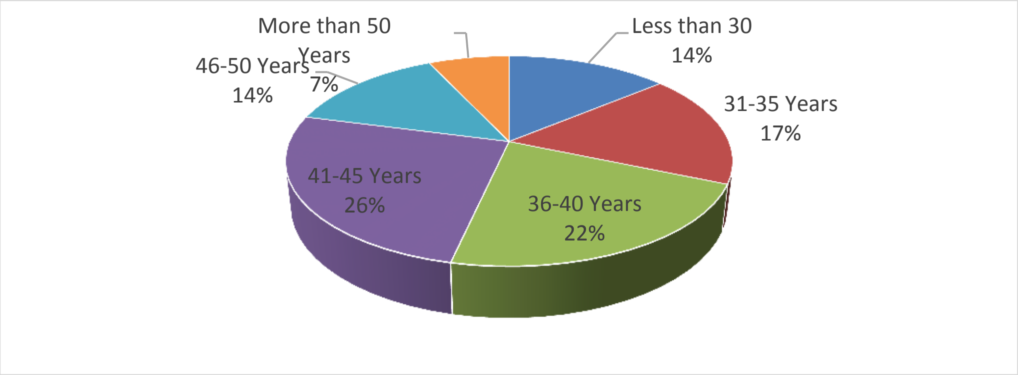



**Figure 4.1: Age of Respondents**

**4.3.2 Position of Respondents**

The study also implored the respondents to indicate their position. Results in Figure 4.2 illustrate that most (70%) were in the middle level of management and the rest 30% were in the senior level of management. Most of the respondents were of middle level management. This can be explained by the fact that at times it is easier to access the middle level management as opposed to those in the senior level management.

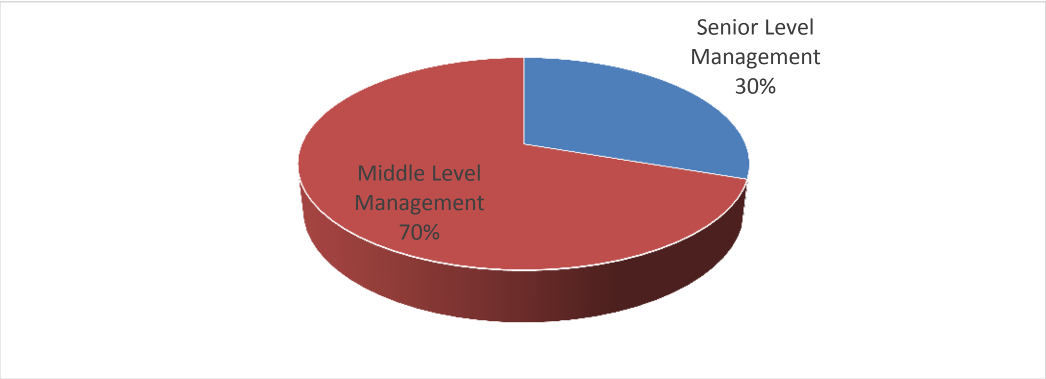



**Figure 4.2: Position of Respondents**

### 4.3.3 Years of Operation

Results in Figure 4.3 demonstrate that 45% had been in operation for more than 10 years. Figure 4.3 also demonstrates that 35% had operated for 5 – 10 years while 20% had been in operation for less than 5 years.

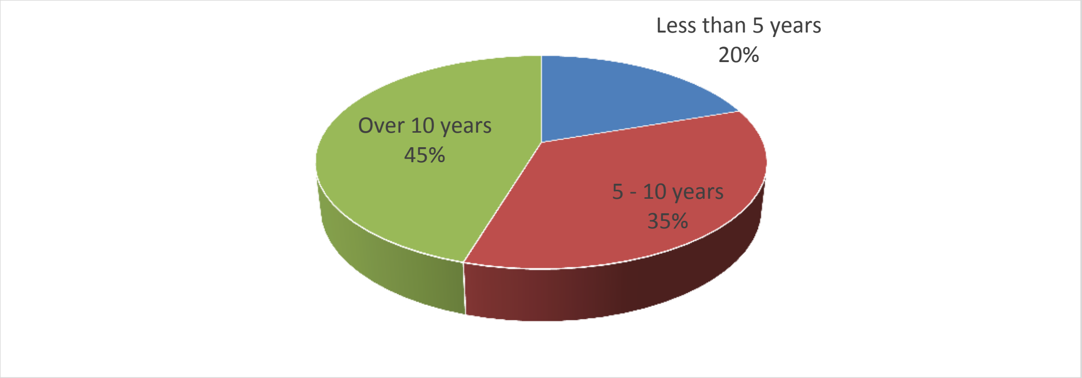



**Figure 4.3: Years of Operation**

### 4.3.4 Number of Employees

Results in Figure 4.4 show that 34% had hired 71–100 employees, 29% had employed 51-70, 17% had hired more than 100 employees while 9% had hired 31-50 employees. Results also showed that 6% had hired 10-30 employees while the rest 5% had hired less than 10 employees.

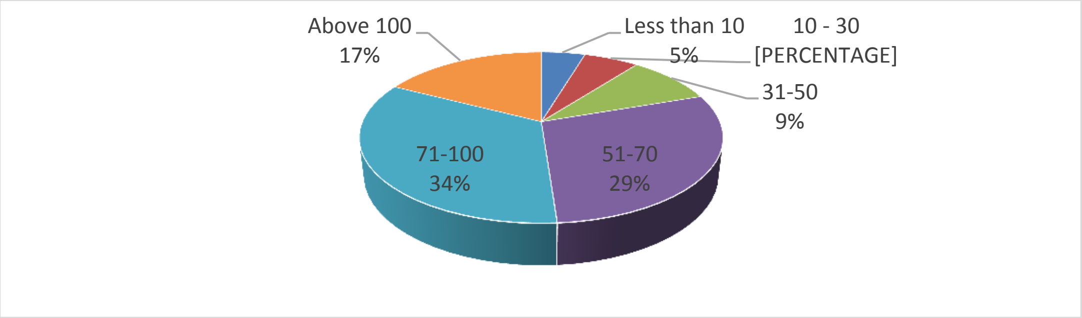



**Figure 4.4: Number of Employees**

## 4.4 Descriptive Statistics

Descriptive results are presented in this section. These entailed results on competitive strategies which included cost leadership strategy, differentiation strategy and focus strategy. The section also outlined the organization performance of foreign owned restaurants in Nairobi City County.

### 4.4.1 Cost Leadership Strategy

The researcher inquired on the degree of use of cost leadership strategy among the foreign owned restaurants in Nairobi City County. Results in Table 4.1 suggest that 56.1% indicated to a great extent. The rest 36% indicated to a low extent.

**Table 4.1: Extent of Use of Cost Leadership Strategy**

| Response | Frequency | Percent |
|---|---|---|
| Very low extent | 15 | 17.4 |
| Low extent | 16 | 18.6 |
| Great extent | 14 | 16.3 |
| Very great extent | 41 | 47.7 |
| **Total** | **86** | **100** |

On establishing the extent of use of the cost leadership strategy, the research was seeking the extent to which foreign owned restaurants use various cost leadership options in response to changes in the market. Table 4.2 show that 62% of the respondents showed that their restaurant continuously reduces cost across the value chain to a great extent, 79.1% affirmed that in their restaurant they utilize knowledge from previous experiences to a great extent while 76.8% posited that they have increased automation and outsourcing in their restaurant greatly. 89.5% pointed out that they exploit the entire economies of scale in their restaurant to a great extent, 64% reiterated that they operate their facilities at capacity that is maximum while

94.1% indicated that they maintain their overheads lower than industry to a great extent. The mean was 3.8 which is an indicator that most of the respondents were agreeing with the statements.

**Table 4.2: Usage of Cost Leadership Strategy**

| Statement | Very low extent | Low extent | Moderate extent | Great extent | Very great extent | Mean |
|---|---|---|---|---|---|---|
| Continuously reducing cost across the value chain. | 2.3% | 31.7% | 4.7% | 59.3% | 2.7% | 3.2 |
| Utilizing knowledge from previous experiences. | 4.7% | 16.3% | 0.0% | 60.5% | 18.6% | 3.7 |
| Increase in automation and outsourcing. | 2.3% | 20.9% | 0.0% | 32.6% | 44.2% | 4.0 |
| Exploitation of the entire economies of scale. | 3.5% | 7.0% | 0.0% | 58.1% | 31.4% | 4.1 |
| Operation of facilities at capacity that is maximum. | 15.1% | 20.9% | 0.0% | 19.8% | 44.2% | 3.6 |
| Maintenance of overheads lower than industry. | 2.3% | 3.5% | 0.0% | 58.1% | 36.0% | 4.2 |
| **Average** | | | | | | **3.8** |

### 4.4.2 Differentiation Strategy

The study inquired on the extent of use of the differentiation strategy among the foreign owned restaurants in Nairobi City County. Results in Table 4.3 suggest that 82.5% indicated to a great extent. The rest 15.1% indicated to a low extent.

**Table 4.3: Extent of Use of Differentiation Strategy**

| Response | Frequency | Percent |
|---|---|---|
| Very low extent | 6 | 7 |
| Low extent | 7 | 8.1 |
| Moderate extent | 2 | 2.3 |
| Great extent | 18 | 20.9 |
| Very great extent | 53 | 61.6 |
| **Total** | **86** | **100** |

On establishing the extent of use of the differentiation strategy, the study sought the extent to which the foreign owned restaurants use various differentiation options in response to changes in the market. Results in Table 4.4 indicate 68.6% of the respondents keeps prices lower than those of the competitor to a great extent, 83.7% affirmed that in their restaurant they strategically locate their restaurants to the consumers to a great extent while 56.9% posited that they give customer service in a unique manner to a great extent. Also 80.2% of the respondents pointed out that they offer variety of goods and services to a great extent, 50% reiterated that they utilize innovations to a great extent while 80.2% indicated that they capitalize on the quality of their staff to a great extent. The mean was 3.7 which is an indicator that most of the respondents were agreeing with the statements.

**Table 4.4: Usage of Differentiation Strategy**

| Statement | Very low extent | Low extent | Moderate extent | Great extent | Very great extent | Mean |
|---|---|---|---|---|---|---|
| Keeping prices lower than those of the competitor. | 8.1% | 17.4% | 5.8% | 59.3% | 9.3% | 3.4 |
| Strategically locating oneself to the consumers. | 2.3% | 2.3% | 11.6% | 65.1% | 18.6% | 4.0 |
| Giving customer service in a unique manner. | 5.8% | 20.9% | 16.3% | 30.2% | 26.7% | 3.5 |
| Offering variety of goods and services. | 3.5% | 4.7% | 11.6% | 62.8% | 17.4% | 3.9 |
| Innovations. | 12.8% | 20.9% | 16.3% | 23.3% | 26.7% | 3.3 |
| Quality of staff. | 3.5% | 4.7% | 11.6% | 61.6% | 18.6% | 3.9 |
| **Average** | | | | | | **3.7** |

### 4.4.3 Focus Strategy

The study inquired on the extent of use of focus strategy among the foreign owned restaurants in Nairobi City County. Results in Table 4.5 suggest that 90.6% indicated to a great extent. The rest 9.3% indicated to a low extent.

**Table 4.5: Extent of Use of Focus Strategy**

| Response | Frequency | Percent |
|---|---|---|
| Very low extent | 3 | 3.5 |
| Low extent | 5 | 5.8 |
| Great extent | 39 | 45.3 |
| Very great extent | 39 | 45.3 |
| **Total** | **86** | **100** |

On establishing the extent of use of focus strategy, the study sought the extent to which the foreign owned restaurants use various focus options in response to changes in the market. It was revealed that 97.7% have their restaurant focusing on selling products/services to a particular market niche to a great extent, 98.8% affirmed that in their restaurant they devote of resources for maintaining market leadership in their niche to a great extent while 98.8% posited that they innovate specific product/service for the niche greatly. Further, 97.7% create brand loyalty thus charging premium prices to a great extent, while 98.8% indicated that they offer efficient and effective service for the narrow strategic market to a great extent. The mean was 4.5 which is an indicator that most of the respondents were agreeing with the statements.

**Table 4.6: Usage of Focus Strategy**

| Statement | Very low extent | Low extent | Moderate extent | Great extent | Very great extent | Mean |
|---|---|---|---|---|---|---|
| Focus on selling Products/Services to a particular market niche. | 0.0% | 2.3% | 0.0% | 51.2% | 46.5% | 4.4 |
| Devotion of resources for maintaining market leadership in this niche. | 1.2% | 0.0% | 0.0% | 26.7% | 72.1% | 4.7 |
| Innovate specific Product/Service for the niche. | 0.0% | 1.2% | 0.0% | 46.5% | 52.3% | 4.5 |
| Creating brand loyalty thus charging premium prices. | 0.0% | 2.3% | 0.0% | 41.9% | 55.8% | 4.5 |
| Efficient and effective service for the narrow strategic market. | 1.2% | 0.0% | 0.0% | 37.2% | 61.6% | 4.6 |
| **Average** | | | | | | **4.5** |

### 4.4.4 Organization Performance

The scholar was seeking to determine organization performance of the foreign owned restaurants in Nairobi City County. Results in Table 4.7 suggest that 95.4% of the respondents posited that their sales had improved greatly, while 96.5% pointed out that the total profits realized had improved greatly. Results also showed that 95.4% affirmed that the customer growth at their restaurant had greatly improved while another 95.4% reiterated that the asset growth of their restaurant had greatly improved. The mean was 4.5 which is an indicator that most of the respondents were agreeing with the statements.

**Table 4.7: Organization Performance**

| Statement | Greatly decreased | Decreased | Constant | Improved | Greatly improved | Mean |
|---|---|---|---|---|---|---|
| Sales volume | 2.3% | 0.0% | 2.3% | 32.6% | 62.8% | 4.5 |
| Total profits realized | 0.0% | 1.2% | 2.3% | 30.2% | 66.3% | 4.6 |
| Customer growth | 1.2% | 1.2% | 2.3% | 44.2% | 51.2% | 4.4 |
| Asset growth | 1.2% | 1.2% | 2.3% | 32.6% | 62.8% | 4.5 |
| **Average** | | | | | | **4.5** |

### 4.4.5 Effect of Cost Leadership Strategy

Results in Table 4.8 reveal that 89.5% of the respondents agreed that they aggressively pursue of automation to lower the cost of service delivery, 94.2% posited that they buy in bulk to reduce cost, 94.2% affirmed that they have tight cost and overhead controls while 91.9% reiterated that they emphasis on maximum capacity utilization of resources. Results also showed that 94.2 % agreed that they reduce costs in certain areas of the restaurants, 82.5% pointed out that the restaurant management is very strict on wastage of materials, 82.5% indicated that they utilize economies of scale while 68.6% stated that they base jobs on limited and specialized tasks. The mean was 4.1 which is an indicator that most of the respondents were agreeing with the statements.

**Table 4.8: Effect of Cost Leadership Strategy**

| Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly disagree | Mean |
|---|---|---|---|---|---|---|
| Aggressive pursuit of automation to lower the cost of service delivery. | 7.0% | 3.5% | 0.0% | 37.2% | 52.3% | 4.2 |
| The company buys in bulk to reduce cost. | 5.8% | 0.0% | 0.0% | 40.7% | 53.5% | 4.4 |
| Tight cost and overhead controls. | 0.0% | 5.8% | 0.0% | 55.8% | 38.4% | 4.3 |
| Emphasis on maximum capacity utilization of resources. | 4.7% | 3.5% | 0.0% | 64.0% | 27.9% | 4.1 |
| Reducing costs in certain areas of the restaurants. | 3.5% | 2.3% | 0.0% | 38.4% | 55.8% | 4.4 |
| Strictness on wastage of materials by restaurant management. | 14.0% | 3.5% | 0.0% | 52.3% | 30.2% | 3.8 |
| Economies of scale. | 1.2% | 7.0% | 9.3% | 61.6% | 20.9% | 3.9 |
| Basing jobs on limited and specialized tasks. | 4.7% | 3.5% | 23.3% | 32.6% | 36.0% | 3.9 |
| **Average** | | | | | | **4.1** |

### 4.4.6 Effect of Differentiation Strategy

Results in Table 4.9 reveal that 47.6% of the respondents agreed that they practice differentiation depending on product or service, 76.4% posited that they practice differentiation depending on price while 75.6% reiterated that they practice differentiation depending on place. Results also showed that 59.3% agreed that they practice differentiation depending on advertising campaign or promotion, 77.9% pointed out that the practice differentiation depending on personnel while 59.3% stated that they practice differentiation depending on image. The mean was 3.7 which is an indicator that most of the respondents were agreeing with the statements.

**Table 4.9: Effect of Differentiation Strategy**

| Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly disagree | Mean |
|---|---|---|---|---|---|---|
| Differentiation depending on product or service. | 16.3% | 18.6% | 17.4% | 17.4% | 30.2% | 3.3 |
| Differentiation depending on price. | 4.7% | 7.0% | 11.6% | 52.3% | 24.4% | 3.8 |
| Differentiation depending on place. | 3.5% | 15.1% | 5.8% | 55.8% | 19.8% | 3.7 |
| Differentiation depending on advertising campaign or promotion. | 5.8% | 18.6% | 16.3% | 31.4% | 27.9% | 3.6 |
| Differentiation depending on personnel. | 3.5% | 7.0% | 11.6% | 51.2% | 26.7% | 3.9 |
| Differentiation depending on image. | 5.8% | 18.6% | 16.3% | 30.2% | 29.1% | 3.6 |
| **Average** | | | | | | **3.7** |

### 4.4.7 Effect of Focus Strategy

Results in Table 4.10 reveal that 91.8% of the respondents agreed that they build brand as well as vision around specific customer promise, 88.4% posited that they make brand and vision visible to their niche market, 97.7% affirmed that they emphasis on continued capital investment to maintain cost advantage for the narrow market segment while 91.9% reiterated that they ensure the customer experience is centered on specific points of excellence. Results also showed that 97.7 % agreed that they have put in place a company structure that has niche customer centricity at the core of its decision making, 88.3% pointed out that they train the employees for them to develop skills that will assist in niche buyer centric objective while 76.8% stated that they target the minds and hearts of certain niche markets to drive attitudinal loyalty. The mean was 3.8 which is an indicator that most of the respondents were agreeing with the statements.

**Table 4.10: Effect of Focus Strategy**

| **Statement** | **Strongly disagree** | **Disagree** | **Neutral** | **Agree** | **Strongly disagree** | **Mean** |
|---|---|---|---|---|---|---|
| Building brand as well as vision around specific customer promise. | 3.5% | 4.7% | 0.0% | 39.5% | 52.3% | 4.3 |
| Making brand and vision visible to our niche market. | 8.1% | 3.5% | 0.0% | 33.7% | 54.7% | 4.2 |
| Continued capital investment to maintain cost advantage for the narrow market segment. | 0.0% | 2.3% | 0.0% | 53.5% | 44.2% | 4.4 |
| Ensuring the customer experience is centered on specific points of excellence. | 7.0% | 1.2% | 0.0% | 66.3% | 25.6% | 4.0 |
| Putting in place a company structure that has niche customer centricity at the core of its decision making. | 2.3% | 0.0% | 0.0% | 33.7% | 64.0% | 4.6 |
| Training the employees for them to develop skills that will assist in niche buyer centric objective. | 10.5% | 1.2% | 0.0% | 58.1% | 30.2% | 4.0 |
| Targeting the minds and hearts of certain niche markets to drive attitudinal loyalty. | 3.5% | 8.1% | 11.6% | 53.5% | 23.3% | 3.8 |
| **Average** | | | | | | **3.8** |

### 4.5 Inferential Statistics

Inferential analysis was conducted show the relationship/ association between the dependent and the independent variables. These comprised regression and correlation results. The regression results include the model of fitness, and ANOVA and regression coefficients.

#### 4.5.1 Correlation Analysis

Correlation analysis shows the association between the dependent and the independent variables. Table 4.11 show that cost leadership strategy and organization performance of foreign owned restaurants in Nairobi City County possess a desirable and notable association (r=0.388, p=0.000).

It is also indicated that differentiation strategy and organization performance of foreign owned restaurants in Nairobi City County have a positive and significant association (r=0.344, p=0.001). Results also showed that focus strategy and organization performance of foreign owned restaurants in Nairobi City County have a positive and significant association (r=0.825, p=0.000), meaning that competitive strategies impact the organization performance of foreign owned restaurants in Nairobi City County positively.

**Table 4.11: Correlation Analysis**

| Variable | | Organization Performance | Cost Leadership Strategy | Differentiation Strategy | Focus Strategy |
|---|---|---|---|---|---|
| Organization Performance | Pearson Correlation | 1 | | | |
| | Sig. (2-tailed) | | | | |
| Cost Leadership Strategy | Pearson Correlation | 0.388 | | | |
| | Sig. (2-tailed) | 0.000 | | | |
| Differentiation Strategy | Pearson Correlation | 0.344 | 0.287 | | |
| | Sig. (2-tailed) | 0.001 | 0.007 | | |
| Focus Strategy | Pearson Correlation | 0.825 | 0.691 | 0.513 | 1 |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | |

### 4.5.2 Regression Analysis

Results in Table 4.12 show that cost leadership strategy, differentiation strategy and focus strategy were found to be satisfactory variables in explaining organization performance of foreign owned restaurants in Nairobi City County. A 0.750 $R^2$ value confirms this, meaning that cost leadership strategy, differentiation strategy and focus strategy explain 75% of the variations in organization performance of foreign owned restaurants in Nairobi City County.

**Table 4.12: Model Fitness**

| R | $R^2$ | Adjusted $R^2$ | Std. Error of the Estimate |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 0.871 | 0.759 | 0.750 | 0.2512 |

The F-statistic values in the ANOVA display are for assessing the significance of the variables in the model (Cooper & Schindler, 2008). Results in Table 4.13 indicate that the overall model was statistically significant as supported by an F statistic of 85.954 and a p value of 0.000. Further, the results imply that the independent variables are good predictors of organization performance of foreign owned restaurants in Nairobi City County.

**Table 4.13: ANOVA**

| Indicator | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 16.277 | 3 | 5.426 | 85.954 | 0.000 |
| Residual | 5.176 | 82 | 0.063 | | |
| Total | 21.453 | 85 | | | |

Regression coefficients results in Table 4.14 show that that there is a positive and significant relationship between cost leadership strategy, differentiation strategy and focus strategy and organization performance of foreign owned restaurants in Nairobi City County. These results were confirmed by beta coefficients of 0.388, 0.156, and 0.788 respectively. Thus, increased use of cost leadership strategy by a unit would result to increased organization performance of foreign owned restaurants by 0.388 units.

These results also show that increased use of differentiation strategy by a unit would result to increased organization performance of foreign owned restaurants by 0.156 units. Further, these results show that increased use of focus strategy by a unit would result to increased organization performance of foreign owned restaurants by 0.788 units.

**Table 4.14: Regression of Coefficients**

| Variable | B | Std. Error | t | Sig. |
|---|---|---|---|---|
| (Constant) | 3.923 | 0.340 | 11.522 | 0.000 |
| Cost Leadership Strategy | 0.388 | 0.080 | 4.860 | 0.000 |
| Differentiation Strategy | 0.156 | 0.071 | 2.213 | 0.030 |
| Focus Strategy | 0.788 | 0.058 | 13.662 | 0.000 |

The regression model took the form of $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$

In which;

Y= Performance of foreign restaurants in Nairobi City County

$\alpha$ = Constant Term

$\beta_i$ = Beta Coefficient of variable i which measures whether there is responsiveness of Y to change in i

$X_1$ = Cost leadership strategy

$X_2$= Differentiation strategy

$X_3$= Focus strategy

e=Error term

Hence, the final model was

Organization Performance of Foreign owned Restaurants= 3.923 + 0.388 Cost Leadership Strategy + 0.156 Differentiation Strategy + 0.788 Focus Strategy

## 4.6 Discussion of Findings

The main objective of the study was to determine the effect of competitive strategies on performance of foreign owned restaurants in Nairobi City County. To start with, the study sought to determine the competitive strategies employed by foreign owned restaurants in Nairobi City County. The study findings illustrated that the restaurants employed cost leadership strategy, differentiation strategy, and focus strategy. This was supported by the findings that the foreign owned restaurants employed these competitive strategies to a large extent. These findings are consistent with those of Porter (1998) who postulated that most firms adopt differentiation, focus and cost leadership competitive strategies. He went further to explain that under cost leadership strategy, the firm seeks to produce its commodities using the least cost in the industry. Under differentiation strategy, firms strive to make their products and services unique, especially on attributes that the consumers greatly value. Under focus strategy, it entails choosing a competitive scope that is narrow in the industry.

Secondly, the study sought to establish the effect of competitive strategies on the performance of foreign owned restaurants in Nairobi City County. The correlation outcomes demonstrated that there existed a positive and notable association between competitive strategies and organization performance of foreign owned restaurants. The regression results also illustrated that there existed a positive and notable connection between competitive strategies and organization performance of foreign owned restaurants. This implies that the influence of CS on the organization performance is positive. Hence, use of cost leadership strategy, differentiation strategy and focus strategy result to improved organization performance of foreign owned restaurants in Nairobi City County. These findings are concurrent with those of Teeratansirikool, Siengthai, Badir and Charoenngam (2013) who asserted that competitive strategies influences organization performance. Their study revealed that it in general, all competitive strategies influence the performance of firms in a positive and significant way via the performance measurement in Thailand market.

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# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

The chapter summarized the findings, which was done objectively. The study also outlines the conclusions based on the findings. Further, the chapter gives the recommendations which the researcher harmonized by suggesting further studies that can be looked at by scholars.

## 5.2 Summary of Findings

The summary of the findings from the analysis was presented objectively in this section.

### 5.2.1 Competitive Strategies Employed by Foreign Owned Restaurants

The first objective was to determine the CS employed by foreign owned restaurants in Nairobi City County. The study findings illustrated that the restaurants employed cost leadership strategy, differentiation strategy, and focus strategy. This was supported by the findings that the foreign owned restaurants employed these competitive strategies to a large extent.

In the case of cost leadership strategy, the findings demonstrated that the foreign owned restaurants continuously reduced cost across the value chain, utilized knowledge from previous experiences, and increased automation and outsourcing. The findings also showed that the foreign owned restaurants exploited the entire economies of scale, operated their facilities at optimal capacity and maintain their overheads lower than industry. In the case of differentiation strategy, the findings depicted that the foreign owned restaurants kept prices lower than those of the competitor, strategically located their restaurants to the consumers and gave customer service in a unique manner.

The findings also revealed that the foreign owned restaurants offered variety of goods and services, utilized innovations and capitalized on the quality of their staff. Further, with regard to focus strategy, the findings illustrated that foreign owned restaurants focused on selling products/services to a particular market niche, devoted resources for maintaining market leadership in their niche and innovated specific product/service for the niche. The findings also posited that the foreign owned restaurants created brand loyalty thus charging premium prices and offered efficient and effective service for the narrow strategic market.

### 5.2.2 Effect of Competitive Strategies on the Performance of Foreign Owned Restaurants

The second objective was to determine the effect of competitive strategies on the organization performance of foreign owned restaurants in Nairobi City County. The correlation outcomes demonstrated that there existed a positive and notable association between competitive strategies and organization performance of foreign owned restaurants. The regression results also illustrated that there existed a positive and notable connection between competitive strategies and organization performance of foreign owned restaurants. This implies that the influence of CS on the organization performance is positive. Hence, use of cost leadership strategy, differentiation strategy and focus strategy result to improved organization performance of foreign owned restaurants in Nairobi City County.

These findings were supported by the realization that use of cost leadership strategies led to aggression in the pursuit of automation to lower the cost of service delivery, buying in bulk to reduce cost, having tight cost and overhead controls, and maximum capacity utilization of resources. Use of cost leadership strategies also led to reduction of costs in certain areas of the restaurants, strictness by the restaurant management on wastage of materials, utilization of economies of scale and basing of jobs on limited and specialized tasks. On the other hand, use of differentiation strategy resulted led to differentiation depending on various aspects such as practice such as product or service, price, place, advertising campaign or promotion, personnel and image.

Further, these findings were supported by the realization that use of focus strategy led to building of brand as well as vision around specific customer promise, making brand and vision visible to their niche market, and putting emphasis on continued capital investment to maintain cost advantage for the narrow market segment. Use of focus strategy also led to centralization of customer experience on specific points of excellence, putting in place a company structure that has niche customer centricity at the core of its decision making and training employees with an aim of equipping them with skills that assist in niche buyer centric objective. There was also the issue of targeting the minds and hearts of certain niche markets to drive attitudinal loyalty.

## 5.3 Conclusion

The study concluded that foreign owned restaurants use competitive strategies. These strategies included cost leadership strategy, differentiation strategy, and focus strategy. The specific uses of cost leadership strategy included reduced cost across the value chain, utilization of knowledge from previous experiences, and increased automation and outsourcing. Other uses included exploitation of the entire economies of scale, operation of facilities at maximum capacity and maintenance of overheads lower than industry. The specific uses of differentiation strategy included keeping prices lower than those of the competitor, strategically locating restaurants to the consumers and giving customer service in a unique manner.

Other uses of differentiation strategy included offering of a variety of goods and services, utilization of innovations and capitalizing on the quality of their staff. The specific uses of focus strategy included selling products/services to a particular market niche, devoting resources for maintaining market leadership in their niche and innovating specific product/service for the niche. Other uses included creation of brand loyalty thus charging premium prices and offering efficient and effective service for the narrow strategic market.

The study also concluded that competitive strategies have a positive influence on the organization performance. Hence, use of cost leadership strategy, differentiation strategy and focus strategy result to improved organization performance of foreign owned restaurants in Nairobi City County. Further, the study concluded that focus strategy had the greatest effect, followed by cost leadership strategy, while differentiation strategy had the least effect.

## 5.4 Recommendations

A recommendation is given that the all stakeholders involved in the management of the foreign owned restaurants in Nairobi City County should use the findings of this study as they point out the importance of using competitive strategies. Using these findings they will be informed on the best competitive strategies to use so as to boost the performance of their restaurants. Using the study findings they can formulate policies that will enable them reap the most from the use of a particular type of competitive strategy.

The study also recommends that policy makers and regulatory agencies in the government should consider using the findings of this study performing their legislation roles with regard to the operations of foreign owned restaurants. Through this study they will be informed on the importance of competitive strategies to these restaurants. Hence, they will formulate policies that will create a favorable environment for investors.

## 5.5 Suggested Areas of Further Studies

The research sought to determine the influence of CS on performance of foreign restaurants in Nairobi City County. It is recommended that a similar study can be conducted among restaurants that are not foreign owned. This would help to determine whether the use of competitive strategies is as important in these restaurants as they are among the foreign owned restaurants.

The study also suggests that a similar study focusing on other forms of businesses be conducted. These would help to determine whether the type of competitive strategies used for different forms of businesses are different. This would also help to establish the differences in the impact of the various types of competitive strategies for different forms of businesses.

Further, the study suggests that a more extensive study be conducted to establish the influence of the specific aspects of the various competitive strategies. This would help the large foreign owned firms to identify the aspects that have more weight than other. This would thus give them clarity on which strategy they should emphasis on.

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# APPENDICES

## Appendix I: Questionnaire

Dear respondent,

The questionnaire below has been designed to obtain information on the influence of competitive strategies on organization performance of foreign restaurants in Nairobi County, Kenya. Kindly read the questions in a careful manner and give answers honestly. The data collected will be utilized solely for academic research purposes and utmost confidence will be given to the information.

**Instructions**

1. Fill in the provided gap or tick inside the box in an appropriate manner.

2. You can provide any further relevant information with regard to the research if you wish.

### PART A: BACKGROUND INFORMATION

1. The name of the restaurant

…………………………………………………………………………

2. Your age bracket in years.

Less than 30 ☐ 31-35☐ 36-40☐ 41-45 ☐ 46-50☐ greater than 51☐

3. Your level of management within the organization.

Senior Level Management ☐

Middle Level Management ☐

4. How long have the restaurant been in operation in Kenya?

Less than 5 years ☐

5 - 10 years ☐

Over 10 years ☐

5. How many employees do you have in the restaurant?

Less than 10 ☐ 11-30 ☐ 31-50☐ 51-70 ☐ 71-100☐ Above 100 ☐

**PART B: COMPETITIVE STRATEGIES**

**Cost Leadership Strategy**

6. To what extent does your restaurant use the strategy of cost leadership in an attempt to remain competitive? (Kindly tick one)

A. Very large extent ( )

B. Great extent ( )

C. Moderate extent ( )

D. Small extent ( )

E. No extent ( )

7. To what extent do you use each of the following cost leadership options in response to changes in the market?

Use 1- Very low extent, 2-Low extent, 3-Moderate extent, 4- Great extent, 5- Very great extent

| **Component** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Continuously reducing cost across the value chain. | | | | | |
| Utilizing knowledge from previous experiences. | | | | | |
| Increase in automation and outsourcing. | | | | | |
| Exploitation of the entire economies of scale. | | | | | |
| Operation of facilities at capacity that is maximum. | | | | | |
| Maintenance of overheads lower than industry. | | | | | |

**Differentiation Strategy**

8. To what extent does your restaurant utilize the strategy of differentiation in an attempt to remain competitive? (Kindly tick one)

A. Very large extent ( )

B. Great extent ( )

C. Moderate extent ( )

D. Small extent ( )

E. No extent ( )

9. Rate the level of application of the following differentiation strategies in your company

Use 1- Very low extent, 2-Low extent, 3-Moderate extent, 4- Great extent, 5- Very great extent

| **Component** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Keeping prices lower than those of the competitor. | | | | | |
| Strategically locating oneself to the consumers. | | | | | |
| Giving customer service in a unique manner. | | | | | |
| Offering variety of goods and services. | | | | | |
| Innovations. | | | | | |
| Quality of staff. | | | | | |

**Focus Strategy**

10. To what extent does your restaurant utilize the strategy of focus in an attempt to remain competitive? (Kindly tick one)

A. Very large extent ( )

B. Great extent ( )

C. Moderate extent ( )

D. Small extent ( )

E. No extent ( )

11. To what extent do the following inform focus strategies in your company?

Use 1- Very low extent, 2-Low extent, 3-Moderate extent, 4- Great extent, 5- Very great extent

| **Component** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Focus on selling Products/Services to a particular market niche. | | | | | |
| Devotion of resources for maintaining market leadership in this niche. | | | | | |
| Innovate specific Product /Service for the niche. | | | | | |
| Creating brand loyalty thus charging premium prices. | | | | | |
| Efficient and effective service for the narrow strategic market. | | | | | |

**PART C: ORGANIZATION PERFORMANCE**

12. What is the trend of the following in your restaurant for the last five years?

Use 1- Greatly decreased, 2-Decreased, 3-Constant, 4- Improved, 5- Greatly improved

| **Component** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Sales volume | | | | | |
| Total profits realized | | | | | |
| Customer growth | | | | | |
| Asset growth | | | | | |

**PART D: EFFECTS OF COMPETITIVE STRATEGIES AND ORGANIZATION PERFORMANCE**

13. To what extent do you agree that your organization engages and emphasizes the following activities relating to cost leadership to enhance performance?

Use 1- Strongly disagree, 2-Disagree, 3-Neutral, 4- Agree, 5- Strongly disagree

| **Strategy** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Aggressive pursuit of automation to lower the cost of service delivery. | | | | | |
| The company buys in bulk to reduce cost. | | | | | |
| Tight cost and overhead controls. | | | | | |
| Emphasis on maximum capacity utilization of resources. | | | | | |
| Reducing costs in certain areas of the restaurants. | | | | | |
| Strictness on wastage of materials by restaurant management. | | | | | |
| Economies of scale. | | | | | |
| Basing jobs on limited and specialized tasks. | | | | | |

In your opinion, how else has your organization adopted cost leadership strategy to enhance performance?

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**PART C: DIFFERENTIATION STRATEGY**

14. To what extent do you agree that your organization engages and emphasizes the following activities relating to differentiation to enhance performance?

Use 1- Strongly disagree, 2-Disagree, 3-Neutral, 4- Agree, 5- Strongly disagree

| **Strategy** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Differentiation depending on product or service. | | | | | |
| Differentiation depending on price. | | | | | |
| Differentiation depending on place. | | | | | |
| Differentiation depending on advertising campaign or promotion. | | | | | |
| Differentiation depending on personnel. | | | | | |
| Differentiation depending on image. | | | | | |

In your opinion, how else has your organization adopted differentiation strategy to enhance performance?

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**PART D: FOCUS STRATEGY**

15. To what extent do you agree that your organization engages and emphasizes the following activities relating to focus strategy to enhance performance?

Use 1- Strongly disagree, 2-Disagree, 3-Neutral, 4- Agree, 5- Strongly agree

| **Component** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Building brand as well as vision around specific customer promise. | | | | | |
| Making brand and vision visible to our niche market. | | | | | |
| Continued capital investment to maintain cost advantage for the narrow market segment. | | | | | |
| Ensuring the customer experience is centered on specific points of excellence. | | | | | |
| Putting in place a company structure that has niche customer centricity at the core of its decision making. | | | | | |
| Training the employees for them to develop skills that will | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| assist in niche buyer centric objective. | | | | | |
| Targeting the minds and hearts of certain niche markets to drive attitudinal loyalty | | | | | |

In your opinion, how else has your organization adopted focusing strategy to enhance performance?

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Thank you for your co-operation

## Appendix II: List of Foreign Owned Restaurants in Nairobi County

1. 360 Degrees Pizza
2. 45 Degrees Kitchen
3. Abyssinia
4. Alan Bobbe’s Bistro
5. Anghiti Restaurant
6. Anhui Chinese Restaurant
7. Artcaffe
8. Asmara Restaurant
9. Bamboo
10. Bao Box
11. Bhandini Restaurant
12. Brioche Café Bistro
13. Campia Ethiopian Restaurant
14. Canton Malaysian Chinese Restaurant
15. China Plate
16. Chowpaty
17. Clay Oven Restaurant
18. Double Dragon
19. Fang Fang
20. Five Senses Restaurant
21. Frenchmaid Bakery
22. Galaxy Chinese Restaurant
23. Golden Chopsticks Chinese Restaurant
24. Grand Cafe And Indian Cuisine
25. Haandi Restaurant
26. Habesha
27. Hashmi`s Restaurant
28. The Tandoori Patio
29. Hong Kong Restaurant
30. La Cascina

31. La Pelle Epoque
32. Le Belverdere Restaurant
33. Le Grenier a Pain Kenya
34. Lucca
35. Mister Wok
36. Open House Restaurant
37. Pool Deck Restaurant
38. Royal Kitchen
39. Sakinas Bbq
40. Shamura's Kitchen
41. Table 49
42. Taste of China
43. Tin Tin
44. Urban Eatery
45. Xian Chinese Restaurant
46. Yejoka Garden
47. Yue Hai

Source: Franchising: International Franchise Association (2018)