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Effect of Cost Leadership Strategies on Performance of Pharmaceutical Companies in Nairobi City County, Kenya

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Abstract: **The main objective of the study was to determine the effect of cost leadership strategy on the performance of pharmaceutical companies in Nairobi City County, Kenya. A descriptive research design was adopted in this study since it allows for analysis of different variables at the same time. The target population of the study was the 20 pharmaceutical companies in Nairobi City County where 60 respondents comprising the chief executive officers (CEOs), operating managers and marketing managers were targeted. The study used stratified simple random sampling technique where 36 respondents were targeted. The study used closed ended questionnaires as instruments for data collection primary data. Descriptive statistics was used to analyze the primary data of quantitative nature. The results of the analysis was organized, summarized and presented using tables. Inferential statistics such as Pearson correlation and multiple regression were applied to make conclusions. The study targeted a sample size of 36 respondents from which 34 filled in and returned the questionnaires making a response rate of 94.4%. The study concluded that cost leadership affects performance of pharmaceutical companies. This study recommends that pharmaceutical companies should embrace and invest in cost leadership strategies most especially forming linkages with suppliers and involvement of the stakeholders since it will enable them achieve competitive advantage.**

Keywords: **Cost Leadership, Strategy, Performance, Pharmaceutical Companies.**

1. INTRODUCTION

Organizational performance is characterized as the capacity of an association to satisfy its central goal through sound administration, solid administration and constant rededication to accomplishing comes about. Reliably relating the activities of the relationship to its execution is fundamental to a key perspective. Execution is a far reaching thought with various signs, made altogether more flighty by operations in different markets with varying degrees of overall coordination. Describing and measuring the various parts of execution for overall affiliations, and working up their cutoff focuses, are steady and propelling troubles. Key execution must consider the risks and vulnerabilities related with most exercises, considerations that again are more snared in the overall condition.

Lusch and Laczniak (2009) portray business execution as the total money related eventual outcomes of the activities endeavored by an affiliation. Walker and Ruekert (2011) found basic estimations of business execution could be gathered into the three arrangements of ampleness, profitability, and adaptability. In any case, there is little assention as to which gage is perfect. In this way, any connection of business execution with simply these three estimations incorporate liberal trade off in light of the fact that incredible execution on one estimation as often as possible infers surrendering execution from one firm to another (Donaldson, 1984).

In many circumstances it is unreasonable or difficult to get to target measures of authoritative execution. Regardless of the possibility that such measures were accessible it would not ensure the precision of the execution estimations. For instance, when an example contains an assortment of ventures, execution estimations and examinations can be especially risky. What is viewed as magnificent execution in one industry might be viewed as poor execution in another industry. In the event that restrain scientists to a solitary industry, the execution measures might be more significant, yet the generalizability of the discoveries to different businesses is tricky.

Pearce and Robinson (2013) include three money related objectives, which describe an association's execution guided by key course. These targets are survival in the market, improvement and profit. An affiliation's advancement is appended inexplicitly to its survival and profitability. Survival suggests a whole deal system to remain in business and inability to do in that capacity mean the association isn't prepared for satisfying the accomplice's focuses.. In spite of the fact that item affect showcase examines (PIMS) have demonstrated that development in the piece of the overall industry is corresponded with productivity, other essential types of development do exist. Development in the quantity of business sectors served, in the assortment of items offered, in the advancements that are utilized to give products or administrations as often as possible prompts enhancements' in an association's aggressive capacity.

A strategy is the outcome of some form of planning or organized process for anticipating and acting in the future in order to carry out an organization‘s mission (Baulcomb, 2013). The people who drive strategy in organizations are seen to be visionaries, entrepreneurs and innovators. They are those who take risks and try new ways of doing things. Strategy primarily specifies how a business unit will achieve and maintain competitive advantage within an industry (Bunker & Wakefield, 2011).

As per Porter (2008) competitive strategy alludes to how a firm means to contend in a given business. Further, Porter (2008) battles that competitive strategy is an arrangement that builds up a beneficial and feasible focused position against the five powers that drive industry rivalry: danger of new participants, dealing energy of providers, bartering energy of purchasers, contention among contenders and risk of new substitutes. It is worried about how an organization can pick up an upper hand through an unmistakable and diverse method for contending (Porter, 2008).

Thompson and Strickland (2008) posit that competitive strategy deals with management ‘s plans for competing in a particular industry and providing superior and unmatched value to customers. Further, they argue that competitive strategy entails performing activities differently or performing activities that are different from competitors to deliver a unique combination of value. The primary role therefore for developing a competitive strategy is to cope with the competition and relate a firm to its external and internal environment. In other words, competitive strategy entails positioning an organization in its competitive environment and giving a firm a competitive edge over its rivals (Porter, 2008).

It is the obligation of the administration of any company to accomplish its upper hand role through advancing interior assets or resources while at the same time catching outer doors and dodging outside dangers that may affect its effectiveness. This needs the advancement of a structure, destinations, mission and an operational arrangement. Perceiving the route in which inside created hierarchical qualities collaborate with the outer focused condition is center to effectively executing a given methodology along these lines making the coveted productivity for an association. With both the inner esteem chain and outer condition as a top priority, top administration can determine an arrangement of key rule that inside use qualities while remotely catching chances to make benefits and points of interest over the rivalries (Ormanidhi and Stringa, 2008).

While various types of organizational strategies aimed at facing competition and creating value have been identified over the years, Porter's generic strategies remain the most commonly supported and identified in key strategic management textbooks. The Kenyan pharmaceutical companies’ application of Porter’s generic competitive strategies is thus of interest to the research. As showed by Porter (2008) centered method insinuates how a firm intends to fight in a given business. Further, Porter (2008) fights that engaged framework is a plan that sets up a productive and viable forceful position against the five powers that drive industry competition: threat of new members, trading vitality of suppliers, managing vitality of buyers, conflict among contenders and danger of new substitutes. It is worried about how an organization can pick up an upper hand through a particular and distinctive method for contending (Porter, 2008).

Thompson and Strickland (2008) set that focused technique manages administration 's gets ready for contending in a specific industry and giving better and unmatched incentive than clients. Further, they contend that focused methodology involves performing exercises contrastingly or performing exercises that are not quite the same as contenders to convey an exceptional mix of significant worth. The essential part along these lines for building up a focused methodology is to adapt to the opposition and relate a firm to its outside and inside condition. As it were, aggressive technique involves situating an association in its focused condition and giving a firm a focused edge over its opponents (Porter, 2008).

It is the obligation of the administration of any association to accomplish upper hand through streamlining inward assets while catching outside circumstances and maintaining a strategic distance from outer dangers. This needs the improvement of a structure, goals, mission and an operational arrangement. Perceiving the path in which inside created authoritative properties cooperate with the outer focused condition is center to effectively executing a given procedure in this way making the coveted productivity for an association. With both the inward esteem chain and outer condition as a main priority, top administration can infer an arrangement of key rule that inside use qualities while remotely catching chances to make benefits and favorable circumstances over the rivalries (Ormanidhi and Stringa, 2008).

While different sorts of authoritative systems went for confronting rivalry and making esteem have been distinguished throughout the years, Porter's non-specific methodologies remain the most regularly upheld and recognized in key administration course readings. The Kenyan pharmaceutical organizations use of Porter's nonexclusive aggressive techniques is in this way important to the examination.

2. STATEMENT OF THE PROBLEM

Company performance is a function of combination of factors, the environment in which companies operate has been marred with various types of turbulence which has been observed in macro environment factors. Since many markets are practically immersed, organizations are compelled to look for and misuse new open doors and these open doors are frequently found in creating economies (Vogel, 2012). Pharmaceutical firms are vulnerable to changes in their operating environment in many ways and these have great consequences on their operation. As a result of this vulnerability manufacturing firms are required to be proactive and able to formulate and adopt appropriate competitive strategies that will enable them to overcome the competitive challenges leading to increased performance. Pharmaceutical firms that do not have appropriate strategies cannot exploit the opportunity available in the market and will automatically fail (Auh & Menguc, 2015).

The global as well as local pharmaceutical industry continues to undergo transformation with change being the constant (Vogel, 2012). At a global level intense globalization, increased competitiveness and the fight for global market share has continued to create new challenges for pharmaceutical companies (Hambrick, 2013). The linkages between competitive methods; cost leadership, differentiation and focused generic strategies, and resulting firm performance have been explored in the literature (Hambrick, 2013). However, the results have not conclusively established that performance is enhanced by following one of these generic strategy types.

Locally, the setting up shop of more pharmaceutical companies, importation of generic drugs and the implementation of the East African Community Common markets protocol have significantly altered the competitive landscape (Dodgson, 2008). The market for pharmaceutical items in Kenya is evaluated at KShs 8 billion for each annum Kenya is presently the biggest maker of pharmaceutical items in the Common Market for Eastern and Southern Africa (COMESA) district, providing around half of the areas' market (GOK, 2014).

Studies related to performance of pharmaceutical manufacturing companies in Kenya have been undertaken. Olwande (2012) did an examination on the use of porter's generic business methodologies and execution of pharmaceutical wholesalers in Kenya and built up that separation system and center procedure were the principle techniques utilized by Multinational pharmaceutical firms in Kenya. Munyasia (2014) did an examination on impact of aggressive methodologies on hierarchical execution in the sugar business in Kenya and built up that that apply separation technique can make a specialty for themselves in the market and even make client devotion.

3. LITERATURE REVIEW

As demonstrated by doorman (2008), the explanation behind cost leadership strategy is the association's simplicity things offers in an industry. Cost activity system occurs through association, intrigue in progress workplaces, assurance and mindful keeping an eye on the total working costs through undertakings, for instance, diminishing the size and quality organization. The cost organization procedure requires the offer of a standard or simple thing, joined with "commanding evaluating". Insignificant exertion concerning contenders is the point experiencing the entire general cost specialist procedure and the objective is doubtlessly broad industry cost activity. Accomplishing cost organization ordinarily requires mighty advancement of profitable scale workplaces and enthusiastic mission for cost diminishes through seeing, tight cost and overhead control, avoidance of insignificant customer records, and cost minimization in ranges like R&D, advantage, bargains control and advancing. When attempting to fulfill a general cost organization position, insignificant exertion concerning contenders is the subject experiencing the entire technique (Kiechel, 2010).

To see how general cost administration methodology may produce predominant productivity, it is important to distinguish the advantages of a minimal effort position. Valipour et al (2012) proclaim that a straightforwardness position gives a firm an obstruction against dispute from contenders, since its lower costs infer that it can even now secure returns after its adversaries have battled away their advantages through rivalry. A negligible exertion position shields the firm against successful buyers since buyers can apply control just to drive down expenses to the level of the accompanying most gainful contender. Negligible exertion gives a security against exceptional suppliers by giving more noteworthy flexibility to adjust to enter cost increases. The components that provoke an insignificant exertion position for the most part also give noteworthy area blocks similarly as scale economies or cost inclinations.

A little effort position generally places the firm in an ideal position in respect to its rivals in the business. Since scale economies and cost preferences have a tendency to shield a firm against capable purchasers and providers and give considerable section hindrances, accomplishing a low general cost position regularly requires a high relative piece of the pie. At the end of the day, cost favorable circumstances can make an incentive for a firm by decreasing the five dangers of passage, competition, substitutes, providers and purchasers. Accomplishing little general cost leadership frequently requires high relative piece of the overall industry or different focal points, for example, good access to crude materials (Porter, 2008; Hunt, 2000; Kiechel, 2010).

A basic requirement for cost leadership strategy is colossal capital interest in best in class gear. With a specific end goal to keep up cost initiative a firm ought to in this manner purchase the biggest, most current plant in the business. With such high stakes just the most gutsy can play. For instance, in fundamental modern items, for example, mash, paper, and steel, expelling a couple of rate focuses off generation costs has significantly more key effect than every one of the weapons the advertiser could utilize in these enterprises (Kim, Nam and Stimpert, 2004). The piece of the overall industry pioneer can underprice rivalry in light of its lower costs because of its total involvement, along these lines additionally hurrying its drive down the bend.

Keeping in mind the end goal to actualize a cost authority procedure requires particular idea to the progressive structure, organization controls, compensation methodologies, and executing cost activity strategies. The definitive strategies and execution mechanical assemblies should fit and in addition invigorate the strategy. Porter (2008) has disengaged necessities of general cost organization strategy into "commonly required aptitudes and resources" and "ordinary definitive essentials". Routinely required aptitudes and resources while realizing general cost expert are overseen capital wander and access to capital, process building capacities, phenomenal supervision of work, things planned for ease in make, and simplicity allocation structures. Normal authoritative prerequisites constitute of tight cost control, visit, nitty gritty control reports, organized association and duties, and motivations in light of meeting strict quantitative targets.

4. RESEARCH METHODOLOGY

A descriptive research design was adopted in this study since it allows for analysis of different variables at the same time. The target population of the study was the 20 pharmaceutical companies in Nairobi City County where 60 respondents comprising the chief executive officers (CEOs), operating managers and marketing managers were targeted. The study used stratified simple random sampling technique where 36 respondents were targeted. The study used closed ended questionnaires as instruments for data collection primary data. Descriptive statistics was used to analyze the primary data of quantitative nature. The results of the analysis was organized, summarized and presented using tables. Inferential statistics such as Pearson correlation and multiple regression were applied to make conclusions. The study targeted a sample size of 36 respondents from which 34 filled in and returned the questionnaires making a response rate of 94.4%.

5. FINDINGS

Table 1 presents the cost leadership strategy employed at pharmaceutical companies in Nairobi City County.

Table 1: The Cost Leadership Strategies Employed by Organization

	Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree	Mean	Standard Deviation
Investment in state of the art equipment	1	3	14	10	6	3.50	0.15
Monitoring and conservation of total operational costs	1	3	12	11	7	3.59	0.14
Aggressive pricing	2	4	9	11	8	3.56	0.11
Sale of standard products	1	3	10	13	7	3.65	0.14
Installation of efficient scale facilities	1	2	9	13	9	3.79	0.15
Control of organizational overheads	1	2	8	16	7	3.76	0.18
Avoidance of marginal customer accounts	1	2	7	15	9	3.85	0.17
Cost minimization in research and development	2	3	12	11	6	3.47	0.13
Cost minimization in sales	1	2	10	14	7	3.71	0.16
Cost minimization in advertising	1	4	7	12	10	3.76	0.13
Cumulative experience and a shorter learning curve	1	2	8	14	9	3.82	0.16
Reducing the size of the organizational management	2	4	7	13	8	3.62	0.12

It was confirmed to a great extent that the organisation avoided marginal customer accounts as shown by a mean of 3.85. It was also confirmed that the organisation conducted cumulative experience and a shorter learning curve as shown by the mean of 3.82, there was installation of efficient scale facilities as shown by the mean of 3.79 and there was control of organizational overheads as shown by the mean of 3.76. It was also agreed that there was cost minimization in advertising as shown by the mean of 3.76, cost minimization in sales as shown by the mean of 3.71 and sale of standard products as represented by a mean of 3.65.

There was reduction in the size of the organizational management as shown by a mean of 3.62 and monitoring and conservation of total operational costs as shown by a mean of 3.59. There was agreement that there was aggressive pricing in the organisation as shown by a mean of 3.56, there was investment in state of the art equipment as shown by a mean of 3.50 and cost minimization in research and development as shown by a mean of 3.47.

The above discoveries bolstered before discoveries by Kiechel, (2010) that a low-cost position for the most part puts the firm in a good position compared to substitutes in respect to its rivals in the business. Since scale economies and cost advantages tend to protect a firm against capable purchasers and providers and give good barriers to entry of firms, accomplishing a low cost position regularly requires a high relative market share. Further as demonstrated by doorman (2008), the explanation behind cost leadership strategy is the association's simplicity things offers in an industry. Cost activity system occurs through association, intrigue in progress workplaces, assurance and mindful keeping an eye on the total working costs through undertakings, for instance, diminishing the size and quality organization.

The study established that there was a strong positive relationship between cost leadership strategies and performance of pharmaceutical companies as shown by a correlation coefficient of 0.868. These results imply that cost leadership plays a very significant role in determining organizational performance. This could be attributed to the fact that price of a commodity serves a very significant role in attracting customers to purchase or not purchase a product. These findings concur with studies done by Phillips (2013) who found a correlation coefficient of 0.742 and concluded that cost leadership creates excesses in returns by providing a basic commodity level product at the lowest cost of production generating larger margins in profits.

6. CONCLUSION AND RECOMMENDATIONS

The study concludes that cost leadership affects performance of pharmaceutical companies through achieving economies of scale, capacity utilization of resources, reducing operations time and costs, efficiency, avoidance of marginal customer accounts, shorter learning curve and control of organizational overheads. In order to achieve a low-cost advantage, pharmaceutical companies must have a low-cost leadership strategy with integrated sections/business units and a workforce committed to the low-cost strategy. Economies of scale gives pharmaceutical companies a competitive advantage thus adopting cost leadership strategies enables pharmaceutical companies to maximize production while minimizing their cost of operation.

This study recommends that pharmaceutical companies should embrace and invest in cost leadership strategy most especially forming linkages with suppliers and involvement of the stakeholders since it will enable them achieve competitive advantage. To develop core competences there is need for good leadership from the management and involvement of all stakeholders. This is because cost leadership strategy enhances performance of companies.

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