

**THE APPLICATION OF PORTER'S GENERIC BUSINESS STRATEGIES
AND PERFORMANCE OF PHARMACEUTICAL WHOLESALERS IN
KENYA**

BY

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**A Management Research Project Submitted in Partial Fulfillment of the
Requirements for the Degree of Master of Business Administration,
School of Business, University of Nairobi**

2012

DECLARATION

I hereby declare that this management research project is my original work. It has not been presented by any other person from the University or any other institution.

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ACKNOWLEDGEMENT

I have taken efforts in this project. However, it would not have been possible without the kind support and help of many individuals and organizations. I would like to extend my sincere thanks to all of them.

I am highly indebted to Prof Francis Kibera for his guidance and constant supervision as well as for providing necessary information regarding the project & also for his support in completing the project.

I would like to express my gratitude towards my parents & family for their kind co-operation and encouragement which helped me in completion of this project.

I would like to express my special gratitude and thanks to industry persons for giving me such attention and time.

My thanks and appreciations also go to my colleagues in supporting this project and people who have willingly helped me out with their abilities.

Abstract

This project has examined the application of Porter's generic business strategies by Pharmaceutical wholesalers in Kenya and how these strategies have impacted firm's performance. By examining these strategies, this project has established the relationship between strategy adopted and the firm's performance and also identified some of the challenges faced while pursuing Porter's generic strategies. A descriptive cross sectional survey was undertaken. The population of the study consisted of all registered Multinational Pharmaceutical wholesalers in Kenya, whose number stood at 40 as at July, 2012. A semi-structured questionnaire was used to collect primary data from the respondents. From the findings, to a great extent differentiation strategy and focus strategy were the main strategies used by Multinational pharmaceutical firms in Kenya. On overall performance majority of the firms were in the category of 41 to 60% rate. Respondents in the study strongly attributed their firm's performance to the strategies adopted thus suggesting that pursuit of one generic business strategy as suggested by Porter, places a firm in a better strategic position and results in superior performance rather than a situation where the firm is "stuck in the middle". Further research to establish factors that lead to change in firms' competitive strategies within the pharmaceutical industry in Kenya is recommended. It is also recommended that Multinational pharmaceutical wholesalers should not try to compete with Asian and local pharmaceutical firms on price, instead they need to market their drugs as aspirational products for the uppermost earners.

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ABBREVIATIONS AND ACRONYMS

ARIPO	African Regional Industrial Property Organization
ARV	Anti-Retroviral
BMI	Business Monitor International
CAGR	Compound Annual Growth Rate
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
FBO	Faith Based Organizations
GDP	Gross Domestic Product
GoK	Government of Kenya
IO	Industrial Organization
KEBS	Kenya Bureau of Standards
KEMSA	Kenya Medical Supplies Agency
MEDS	Mission for Essential Drugs Supplies
MoH	Ministry of Health
MoMs	Ministry of Medical services
MoPHS	Ministry of Public Health and Sanitation
NHIF	National Health Insurance Fund
OTC	Over the Counter
SPSS	Statistical Package for Social Sciences
TB	Tuberculosis
USA	United States of America
WHO	World Health Organization

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The challenges of the business environment in the 1990s, characterized by fragmented markets, increased competition, rapid technological changes, shifting regulatory frameworks, and a growing dependence on non-price competition, forced many businesses to more closely scrutinize their competitive strategy. Porter (1985) argues that firms create competitive advantage by conceiving new ways to deliver superior value to customers. Innovation is a key source of competitive advantage and can occur at any stage of the value chain. However, the literature in this regard is biased towards technological innovation.

A growing number of researchers suggest that definitions of innovation should incorporate a broader range of activities (Porter, 1987). The increased competition has been further fuelled by the developments in technology, communication and liberalisation of the major world economies. These factors have reduced the world into a global village as far as business transactions are concerned. As a result, organisations are facing stiff competition from both local and foreign competitors. Organisations are therefore implementing various competitive strategies with the aim of achieving a sustainable competitive advantage over their competitors and to ensure their survival.

1.1.1 The concept of Porter's Generic Business Strategies

Strategy is an essential part of any effective business plan. By using an effective competitive strategy, a company defines its industry niche and learns about its customers (Porter, 1980). Porter (1985) asserts that there are three basic business strategies (differentiation, cost leadership, and focus) and a company performs best by choosing one strategy on which to concentrate. However, many researchers feel a combination of these strategies may offer a company the best chance to achieve a competitive advantage (White, 1986; Fuerer and Chaharbaghi, 1997; Cross, 1999; Hlavacka *et al.*, 2001). Whatever strategy a business chooses, it must fit with the company and its goals and objectives in order to gain a competitive advantage (Parker and Helms, 1992; Kippenberger, 1996; Surowiecki, 1999; Ross, 1999).

Porter (1987) asserts that companies must be competitive to become an industry leader (Murdoch, 1999; Suutari, 1999), to be successful both nationally and abroad (Anon, 1998; Niemira, 2000; Davidson, 2001). These strategies for gaining competitive advantage apply to all industries in most nations (McNamee and McHugh, 1989; Green *et al.*, 1993; Median and Chin, 1995).

While various types of organizational strategies have been identified over the years, Porter's generic strategies remain the most commonly supported and identified in key strategic management textbooks (Thompson and Stickland, 1998; David, 2000 ;) and in other literature (Kim and Lim, 1988; Miller and Dess, 1993). Porter (1980) suggests that for long-term profitability, the firm must make a choice among the generic strategies rather than end up being “stuck in the middle”. A firm’s ability to survive in an industry

is largely influenced by the competitive strategies it adopts. The Kenyan Pharmaceutical Industry, which is no exception to the rest of the dynamic and competitive business environment, forms a good context for a study on the application of Porter's generic business strategies.

1.1.2 The concept of organization performance

Lusch and Laczniak (1989) define business performance as the total economic results of the activities undertaken by an organization. Walker and Ruekert (1987) found primary dimensions of business performance could be grouped into the three categories of effectiveness, efficiency, and adaptability. But there is little agreement as to which measure is best. Thus, any comparison of business performance with only these three dimensions involve substantial trade-offs because good performance on one dimension often means sacrificing performance on another (Donaldson, 1984).

In many research situations it is impractical or impossible to access objective measures of organizational performance. Even if such measures were available it would not guarantee the accuracy of the performance measurements. For example, when a sample contains a variety of industries, performance measurements and comparisons can be particularly problematic. What is considered excellent performance in one industry may be considered poor performance in another industry. If researchers limit themselves to a single industry, the performance measures may be more meaningful, but the generalizability of the findings to other industries is problematic.

The literature has remained largely at the conceptual level in discussing the link between the generic strategies and firm performance. Scholars agree it should and must exist, but researchers have not determined which specific strategic practices within the generic strategy framework best achieve organizational performance goals. It seems some combination of practices is more effective than others, but propositions on strategic practices have remained largely untested and there is a recognized need for empirical work in this area.

1.1.3 The Pharmaceutical Industry in Kenya

The pharmaceutical industry in Kenya is growing and within the next 20 years it is expected that the research and development of drugs, devices and vaccines needed for Kenya and the other East African countries (Burundi, Rwanda, Uganda, and Tanzania) will be done in East Africa. (Dodgson, 2008).

“In general, the Ministry of Medical Services (MoMs) and the Ministry of Public Health and Sanitation (MoPHS) (formerly one single Ministry of Health) run programmes for diseases with a heavy impact on public health, including the promotion of good health lifestyles, prevention, and treatment or curative measures” (Shahid & Wanyanga, 2010, p. 27). The Division of Malaria Control under MoPHS is responsible for the control and management of malaria. The estimated budget in the year 2009-2010 for public procurement of anti-malarial medicines was KSh 1,436,688,247 (US\$ 19.3 million), which amounts to US\$ 1.17 (KSh 87.85) per treatment.

The funding requirements for 2009 for Tuberculosis (TB) control in Kenya, as assessed by the Global Plan for World health organisation's (WHO) Stop TB Partnership, totalled US\$ 37 million. Of this, only some 60 per cent or US\$ 22.2 million was raised, with the government contributing about one third of this money. There has been a massive scale-up of treatment and care for HIV/AIDS in the last few years. The financial requirement for HIV/AIDS control has been rising steadily, with a total projected requirement for the four years from 2009 to 2013 of KSh 266.7 billion (US\$ 3,556 million). Treatment and care takes the largest portion (57.9 per cent) of the total cost estimate, with ART accounting for 38.3 per cent (Shahid &Wanyanga, 2010).

In 2005, legislation for a National Social Health Insurance was passed. This envisioned universal compulsory health coverage for all Kenyans, with free coverage for the most vulnerable sections of the population. The objective is to cover 60 per cent of the population by 2015, while offering increasing inpatient and outpatient services. Meanwhile, new, more affordable, private health insurance packages are also being launched, some through public-private partnerships involving donor assistance. As insurance coverage expands, the demand for medicines is naturally expected to rise although the impact is difficult to quantify at this stage.

In 2010, some 1.6 million Kenyans (9.5 million, when dependants are included) were covered by the National Health Insurance Fund (NHIF), which covers only in-patient care, while the costs of diagnosis, treatment, and medicines are expected to be borne directly by the individuals concerned (Shahid & Wanyanga, 2010). Currently, medical

care is a requirement among employers; the law requires that every employer ensures provision of proper medicine and attendance to employees, unless otherwise provided for by the government.

Kenya's exports of pharmaceuticals expanded by 96 per cent between 2004 and 2008, rising from US\$ 30.3 million to US\$ 59.4 million, in spite of the economic slowdown in 2008. This represents a Compound Annual Growth Rate (CAGR) of 18.3 per cent over the period. About half of Kenya's exports of pharmaceutical products are to the United Republic of Tanzania and Uganda. Demand has been expanding in these two countries but they buy in relatively small volumes. China and Indian suppliers represent the main competition in generic medicines. Neighbouring (southern) Sudan is emerging as another important market and there may be considerable scope in future for sales to Somalia (Shahid & Wanyanga, 2010).

Shahid and Wanyanga (2010) point out that "An estimate of the Kenyan pharmaceutical market by Business Monitor International (BMI) shows that expenditure on prescription medicines in 2008 was KSh 10.9 billion (US\$ 158 million) and that this constituted 68.7 per cent of the total market. The market share of prescription drugs could rise in future if strict controls are introduced on the sale of drugs since many people currently buy such medicines without a prescription. Using the BMI definition, prescription medicines include generics, branded generics, and original brands. Self-medication is prevalent in Kenya and the Over the Counter (OTC) market is therefore very important. However, while sales volumes are large, OTC medicines are usually low-priced and competition is high. The OTC market component was estimated at KSh 4.96 billion (US\$ 72 million)

and, combining prescription medicines and OTC products, BMI estimates the total domestic market to have reached US\$ 230 million in 2008” (p.36).

For purposes of comparison, another market study by Frost & Sullivan (F & S) in December 2008 valued the Kenyan market for pharmaceuticals at \$208.6 million in 2007 and expected it to reach \$558.5 million by 2014, growing at a CAGR of 15.1 per cent. The generic pharmaceuticals market is expected to grow more rapidly than the market for branded pharmaceuticals, a trend that is expected to be driven largely by increased government purchases of generics and the price-sensitive nature of the overall market. The Frost & Sullivan report said that locally manufactured pharmaceutical products commanded 28 per cent of the overall pharmaceutical market in 2007. F & S also forecast per capita expenditure on medicines at US\$ 5.9 in 2009, increasing to US\$14.1 by 2014. Of the total market in 2008, F & S estimated that generics would have accounted for 58.7 per cent of the total, while original branded pharmaceuticals would have accounted for the balance of 41.3 per cent (Shahid & Wanyanga, 2010).

The patent protection of pharmaceuticals in Kenya is based on the African Regional Industrial Property Organization (ARIPO) patent system. Kenya’s patent laws have been revised from the traditional British based format to the ARIPO system, which was created by the Lusaka agreement in 1976. ARIPO is based in Harare, Zimbabwe. The organization was mainly established to pool the resources of its member countries in industrial property matters together in order to avoid duplication of financial and human resources. Additionally, the Kenyan government passed the Kenya Industrial Property

Bill in 2001. This bill allows Kenya to import and produce more affordable medicines for HIV/AIDS and other diseases (Kenya's pharmaceutical industry, 2005).

The Government of Kenya (GoK) procures medicines through its national procurement agency, the Kenya Medical Supplies Agency (KEMSA). The Agency receives funding from the GoK and development partners for procurement of medical supplies for Rural Health Facilities (4,000 dispensaries and 511 health centres, which are operated by both the GoK and Faith-Based Organizations (FBOs)). It has been estimated that KEMSA's purchases constitute 30 per cent of all prescription drugs in the domestic market. KEMSA competes with other suppliers, such as the Mission for Essential Drugs Supplies (MEDS) and private wholesalers.

The country continues to have remarkable expansion in the number of health facilities in all provinces. This is in line with the GoK's effort to avail accessible health facilities and services to all Kenyans. The WHO estimates the global market for herbal medicines to currently stand at over US\$60 billion annually and is growing steadily. Kenya emphasizes continuous training of more medical personnel to compliment the growth in the health sector.

The profession of pharmacy and the trade in pharmaceutical products is administered by MoMs, through the Pharmacy and Poisons Board, as provided for by Chapter 244 (The Pharmacy and Poisons Act) and Chapter 245 (The Dangerous Drugs Act) of the Laws of Kenya.

1.1.4 Pharmaceutical wholesalers in Kenya

The pharmaceutical industry in Kenya consists of three segments namely the manufacturers, distributors and retailers. These sectors play a major role in supporting the country's health sector, which is estimated to have about 5000 health facilities countrywide. Kenya is one of the main producers of pharmaceutical products in the Common Market for Eastern and Southern Africa (COMESA) region, supplying about 50% of the regions' market. Out of the region's estimate of 50 recognized pharmaceutical manufacturers; 30 are based in Kenya. It is approximated that about 12,000 pharmaceutical products have been registered for sale in Kenya. These are categorized according to particular levels of outlet as free sales/ Over the Counter (OTC), pharmacy technologist dispensable or pharmacist dispensable/ prescription only.

The pharmaceutical Manufacturing sector consists of local manufacturing companies and large Multinational Corporations (MNCs), subsidiaries or joint ventures. Most multinational firms are located within Nairobi and its environs. These firms collectively employ over 2,000 people, about 65% of who work in direct production. The industry compounds and packages medicines, repackaging formulated drugs, and processing bulk drugs into doses using predominantly imported active ingredients and excipients. The bulk of locally manufactured preparations are non-sterile, over-the-counter (OTC) products. The number of companies engaged in manufacturing and distribution of pharmaceutical products in Kenya continue to expand, driven by the Government's efforts to promote local and foreign investment in the sector.

The Country largely imports medicinal and pharmaceutical products from sources such as Britain, India, Germany, France, the USA and Switzerland. Importers are expected to meet legal requirements, which include providing samples to the Kenya Bureau of Standards (KEBS) for quality checks and registration and meeting of the regulations of the national policy, which has been adopted by MoMs. This includes an essential drugs list, using WHO guidelines, whose objective is to promote the availability of quality pharmaceutical products at affordable prices; and pass regulatory quality control, monitoring and market surveillance as stipulated by the Pharmacy and Poisons Board and the National Drug Quality Control.

Pharmaceutical products in Kenya are channeled through pharmacies, chemists, health facilities and traditional outlets. There are about 700 registered wholesale and 1,300 retail dealers in Kenya which are manned by registered pharmacists and pharmaceutical technologists. The drugs in Kenya are sold according to the outlet categorization, which can be described as free-sales/OTC, pharmacy technologist dispensable, or pharmacist dispensable/prescription only (Kenya's pharmaceutical industry, 2005).

1.2 Statement of the Problem

The primary objective of managers of profit seeking organizations is to maximize the performance of the firm over time. Porter (1980, 1985) argues that superior performance can be achieved in a competitive industry through the pursuit of a generic strategy, which he defines as the development of overall cost leadership, differentiation, or focus

approach to industry competition. If a firm does not pursue one of these strategy types, it will be stuck-in-the-middle and will experience lower performance when compared to firms that pursue a generic strategy (Porter, 1980). The linkages between competitive methods; cost leadership, differentiation and focused generic strategies, and resulting firm performance have been explored in the literature (Hambrick, 1983; Dess and Davis, 1984; Kumar *et al.*, 1997). However, the results have not conclusively established that performance is enhanced by following one of these generic strategy types.

Studies related to competitive strategies in Kenya include those of Kibiru (1999) who studied the achievement of competitive advantage through differentiation of market offering by chemical fertilizers importing companies in Kenya; Murage (2001) investigated the competitive strategies adopted by members of the Kenya Independent Petroleum Dealers Association; Karanja (2002) studied the competitive strategies of real estate firms in Kenya; and Ndubai (2003) investigated the competitive strategies applied by retail sector of the pharmaceutical industry in Nairobi. The findings show that the pharmaceutical industry adopted a stay-on-the-offensive strategy, fortify-and-defend strategy and muscle-flexing strategy. In addition, the industry adopted a restructure the company's business lineup, divest some businesses and retrench to a narrower diversification base, and broaden the diversification base. The study by Ndubai (2003) did not focus on Porter's generic strategies.

There are several studies which have investigated the subject of competitive advantage in other product – market contexts. For instance, in the manufacturing sector Theuri (2003) studied the competitive strategies adopted by branded fast food chain in Nairobi; Obado

(2005) studied the competitive strategies employed by the sugar manufacturing firms in Kenya; and Mungai (2006) investigated competitive strategies adopted by mainstream daily print media firms in Kenya.

In the services sector, Namada (2004) investigated the competitive strategies adopted by small scale enterprises in exhibition halls in Nairobi; Ogolla (2005) researched the application of porter's strategies by insurance companies in Kenya; Kitoto (2005) examined the competitive strategies adopted by universities in Kenya. Other researchers such as Okal (2006) studied competitive strategies adopted by NGOs dealing with HIV/AIDS in Kenya to cope with increased competition for funding; Mwakundia (2006) investigated competitive strategies applied by commercial colleges in Nairobi CBD; and Njoroge (2006) researched competitive strategies adopted by LPG marketers in Kenya to cope with competition.

None of the above studies focused on the application of Porter's generic competitive strategies by pharmaceutical wholesalers in Kenya. The current study therefore set out to address this knowledge gap. The study addressed the following research questions: (i) to what extent have pharmaceutical wholesalers in Kenya adopted Porter's generic business strategies; (ii) What is the relationship between Porter's generic business strategies and key performance indicators (KPIs) such as market share, profitability and business growth?; and (iii) What are the challenges faced by the Pharmaceutical wholesalers in Kenya in implementing Porter's generic business strategies and what are the suggested solutions?

1.3 Objectives of the Study

1.3.1 General Objective

The broad objective of the study was to examine the application of Porter's generic strategies by Pharmaceutical wholesalers in Kenya.

1.3.2 Specific Objectives

The specific objectives of the study were to:

- (i) establish the extent to which Pharmaceutical wholesalers in Kenya have adopted Porter's generic business strategies ;
- (ii) assess the relationship between Porter's generic business strategies and key performance indicators (KPIs) such as market share, profitability and business growth; and
- (iii) Identify the challenges faced by the Pharmaceutical wholesalers in Kenya in implementing Porter's generic business strategies.

1.4 Importance of the Study

It was hoped that the research findings of the study would be beneficial to various key stakeholders, including the following:

The management of pharmaceutical companies

The management of the various manufacturing companies, pharmaceutical wholesalers and retail outlets would gain a better understanding and value of Porter's generic strategies, the relationship between the strategies adopted and firm performance and the challenges faced when implementing the strategies. On the basis of the findings of the study, the management of these companies would be expected to implement corporate strategies from an informed position for the benefit of key stakeholders.

Policy Makers

The pharmaceutical industry policy makers, who include MoMs and the Pharmacy and Poisons Board would acquire insight into the involvement of the stakeholders in the pharmaceutical industry in the generic strategies and accommodate the strategies in the policies to be formulated.

Academicians and scholars

The relationship between the generic strategies and organizational performance is a relatively new concept. The academic world would consider the enormous potential of this strategic interface. The study was expected to make a significant contribution to the growing body of knowledge based research in the generic strategies. It was anticipated that the findings will be used as a source of reference by other researchers.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature related to the purpose of the study. The chapter was organized according to the specific objectives in order to ensure relevance to the research problem. The review was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area. The literature review was based on authoritative, recent, and original sources such as journals, books, theses and dissertations.

2.2 Theoretical background

Strategic contingency theory has its roots in the structure-strategy-performance paradigm associated with institutional economists (Bain, 1956) but focuses less on structure and more on strategy. Its focus is on the “fit or match between strategy and environment”. Many theorists have explored the relationship between environment and strategy, but much of the early work was completed by Porter (1980, p. 3), who states that, “The essence of formulating competitive strategy is relating a company to its environment.”

Porter (1980) introduced the three generic strategies of cost leadership, differentiation, and focus. These strategies are a result of various environmental features but are rooted in the firm’s decision to pursue a broad or narrow target market and a uniqueness or cost competency. The three generic strategies have motivated much research (Murray, 1988; Hill, 1988). Porter (1980, p. 41) states that, “the firm failing to develop its strategy in at least one of the three directions (a firm that is “stuck in the middle”) is in an extremely

poor strategic situation.” This “stuck-in-the-middle” scenario is discussed by Porter (1980) on a global level with the use of example firms that compete in multiple foreign markets. Porter’s rigid view of the appropriateness of utilizing one generic strategy and one only, regardless of environmental conditions, has been criticized (Wright, 1987; Hill, 1988). There is some empirical evidence that a hybrid or “middle” approach may be usefully applied (Kim and Lim, 1988; Hlavacka *et al.*, 2001). To quote Miller and Friesen (1986, p. 730): “studies have found that strategies have varying utility in different settings.” In contrast to this position, other scholars have supported Porter’s idea that competing with an exclusive, single strategy is most effective. Overall, the literature is generally supportive of Porter’s claim (Miller and Friesen, 1986; Green *et al.*, 1993).

2.3 Porter’s generic business strategies

Porter argues that companies must be competitive in order to become an industry leader (Murdoch, 1999; Suutari, 1999), to be successful both nationally and abroad (Niemira, 2000; Davidson, 2001), and these strategies for gaining competitive advantage apply to all industries in most nations (Green *et al.*, 1993; Median and Chin, 1995). While various types of organizational strategies have been identified over the years, the generic strategies remain the most commonly supported and identified in key strategic management textbooks (David, 2000) and in the literature (Miller and Dess, 1993).

2.3.1 Differentiation

When using this strategy, a company focuses its efforts on providing a unique product or service (Cross, 1999; Hlavacka *et al.*, 2001). Since, the product or service is unique; this

strategy provides high customer loyalty (Cross, 1999; Hlavacka *et al.*, 2001). Differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived based on fashion, brand name, or image. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and willing to pay a higher price.

A key step in devising a differentiation strategy is to determine what makes a company different from a competitor's (Rajecki, 2002; Tuminello, 2002). Factors including market sector quality of work, the size of the firm, the image, geographical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested as firms differentiators (Davidson, 2001; McCracken, 2002). To be effective, the message of differentiation must reach the clients (McCracken, 2002), as the customer's perceptions of the company are important (Berthoff, 2002; Troy, 2002). When using differentiation, firms must be prepared to add a premium to the cost (Hyatt, 2001). This is not to suggest costs and prices are not considered; only it is not the main focus (Hlavacka *et al.*, 2001). However, since customers perceive the product or service as unique, they are loyal to the company and willing to pay the higher price for its products (Cross, 1999; Hlavacka *et al.*, 2001; Venu, 2001).

Some key concepts for establishing differentiation include speaking about the product to select panels (McCracken, 2002), writing on key topics affecting the company in the

association's magazine or newsletter (McCracken, 2002), becoming involved in the community (McCracken, 2002), being creative when composing the company's portfolio (Tuminello, 2002), offering something the competitor does not or cannot offer (Rajecki, 2002), using company size as an advantage (Darrow *et al.*, 2001), training employees with in-depth product and service knowledge (Darrow *et al.*, 2001), offering improved or innovative products (Helms *et al.*, 1997), emphasizing the company's state-of-the-art technology, quality service, and unique products/services (Hlavacka *et al.*, 2001), using photos and renderings in brochures (McCracken, 2002), and selecting products and services for which there is a strong local need (Darrow *et al.*, 2001).

2.3.2 Cost leadership

The second generic strategy is cost leadership (Malburg, 2000). This strategy focuses on gaining competitive advantage by having the lowest cost in the industry (Cross, 1999; Hyatt, 2001; Davidson, 2001). In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy (Malburg, 2000). The organization must be willing to discontinue any activities in which it does not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage (Malburg, 2000). For an effective cost leadership strategy, a firm must have a large market share (Hyatt, 2001). Cost leadership can be achieved through mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials (Malburg, 2000; Venu, 2001; Davidson, 2001). According to Porter (1985), only one firm in an industry can be the cost leader (Venu, 2001; Sy, 2002)

and if this is the only difference between a firm and competitors, the best strategic choice is the low cost leadership role (Malburg, 2000).

Lower costs and cost advantages result from process innovations, learning curve benefits, and economies of scale, product designs reducing manufacturing time and costs, and reengineering activities. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs.

Firms do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share (Porter, 1996). Lower prices lead to higher demand and, therefore, to a larger market share (Helms *et al.*, 1997). As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market (Hyatt, 2001). The leader then is somewhat insulated from industry wide price reductions (Malburg, 2000; Hlavacka *et al.*, 2001). The cost leadership strategy does have disadvantages. It creates little customer loyalty and if a firm lowers prices too much, it may lose revenues (Cross, 1999).

2.3.3 Focus

In the focus strategy, a firm targets a specific segment of the market (Porter, 1987, 1996; Cross, 1999; Davidson, 2001; Hlavacka *et al.*, 2001; Hyatt, 2001). The firm can choose to focus on a select customer group, product range, geographical area, or service line (Hyatt, 2001; Venu, 2001; Darrow *et al.*, 2001; McCracken, 2002). For example, some European

firms focus solely on the European market (Stone, 1995). Focus is also based on adopting a narrow competitive scope within an industry. It aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements. A successful focus strategy (Porter, 1980) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Medium sized and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms (David, 2000).

2.3.4 Combination of different strategies.

An organization may also choose a combination strategy by mixing the generic strategies. For example, a firm may choose to have a focused differentiation strategy. This means the organization has a unique product offered to a targeted market segment. An organization may also choose to have a focused cost-leadership strategy. In this instance, an organization would use a cost leadership strategy targeted to a specific market segment. There is much debate as to whether or not a company can have a differentiation and low-cost leadership strategy at the same time (Helms *et al.*, 1997). Porter felt differentiation and cost-leadership were mutually exclusive (Helms *et al.*, 1997). However, research shows this is not always the case (Gupta, 1995; Fuerer and Chaharbaghi, 1997; Hlavacka *et al.*, 2001). Kumar *et al.* (1997) in their study of generic

strategies found that when hospitals follow a focused cost leadership hybrid strategy they exhibited higher performance than those following either cost leadership or differentiation alone. Similarly in their research on the UK wine industry, Richardson and Dennis (2003) found that the hybrid focused differentiation approach was best for niche segments. Spanos *et al.* (2004) studied the Greek manufacturing industry and found that hybrid strategies were preferable to pure strategies. According to Porter (Argyres and McGaha, 2002), lower cost and differentiation are directly connected with profitability. As research addressed the relationship between strategy and performance, some studies concluded only “pure” strategies (generic strategies of cost leadership or differentiation) resulted in superior performance, while other research studies found that combinations strategies (low-cost and differentiation) were optimal. This debate continues in the literature and the current study attempted to shed more light in this area. Figure 2.1 below presents the Porter’s Generic Strategies.

Figure 2.1: Porter’s Generic Strategies

SCOPE	Broad	Cost Leadership Strategies	Differentiation Strategies
	Narrow	Cost Focus Strategies	Differentiation Focus Strategies

SOURCE OF COMPETITIVE ADVANTAGE

Retrieved from

[http:// www.mindtools.com/pages/article/newSTR_82.htm](http://www.mindtools.com/pages/article/newSTR_82.htm)

The strategy literature provides numerous theories, research methodologies, and ideas on the strategy-performance relationship. Strategy research has its roots in industrial organization (IO) theory. According to Bain (1956), the IO framework of industry behavior, firm performance or profitability is seen as a function of the industry structure. Industry characteristics rather than firm-based issues are found to determine firm performance (Barney, 1986). This structure-conduct-performance model from IO and economics has been used in industries with high concentrations and similar firms (Seth and Thomas, 1994). Some studies have not found any linkage between strategy and performance (McGee and Thomas, 1986, 1992). To investigate the strategy and performance linkage, many researchers began utilizing approaches found to be generalizable across industries, specifically those proposed by Porter (1987).

2.4 Organizational Performance Measures

While researchers may not always agree on the best strategy, or strategy combination, most if not all, support the long-term benefits of strategic planning for the successful performance of an organization or business unit. However, measuring the performance of a company is challenging. Researchers disagree about how to both define and operationalize performance (Buckley *et al.*, 1988; Littler, 1988; Day and Wensley, 1988).

Most studies on organizational performance use a variety of financial and non-financial success measures. Researchers employ financial measures such as profit (Saunders and Wong, 1985; Hooley and Lynch, 1985; Baker *et al.*, 1988), turnover (Frazier and Howell, 1983), return on investment (Hooley and Lynch, 1985), return on capital employed (Baker *et al.*, 1988), and inventory turnover (Frazier and Howell, 1983). Non-financial

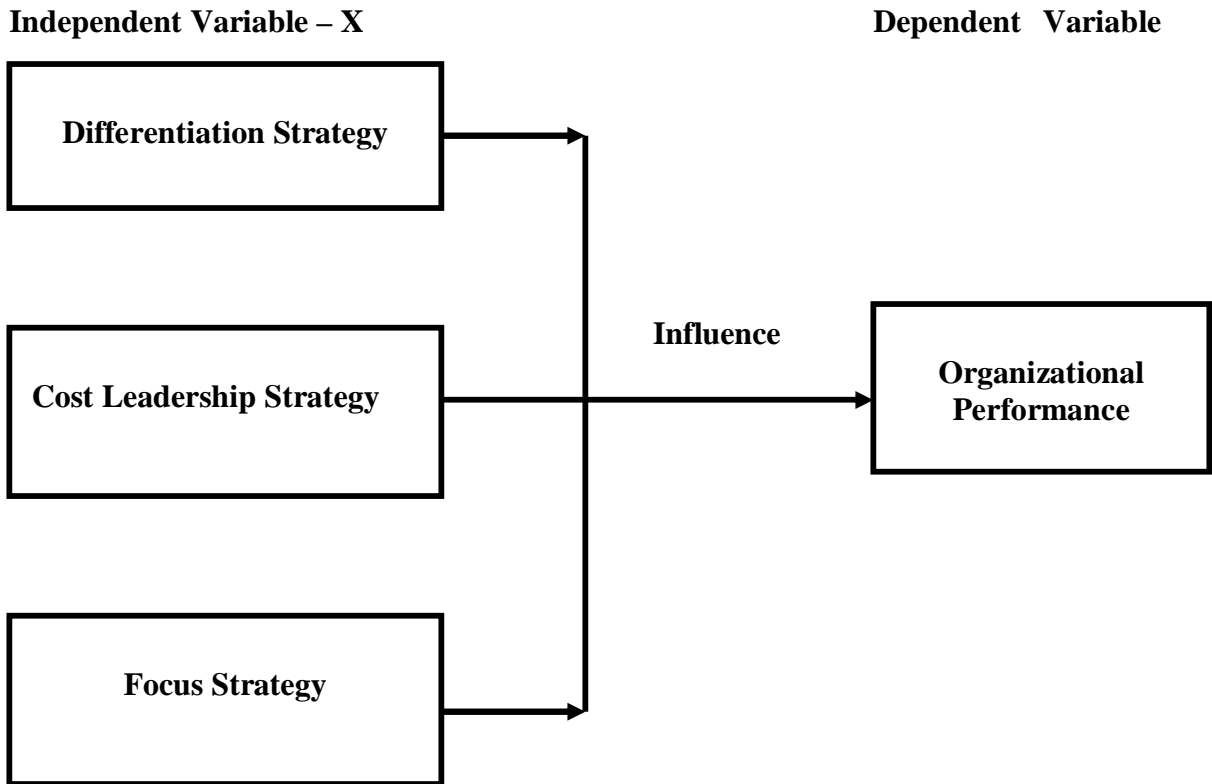
measures include innovativeness (Goldsmith and Clutterbuck, 1984) and market standing (Saunders and Wong, 1985; Hooley and Lynch, 1985). When performance is measured at a variety of levels (national, industry, company, and product), comparison of results is rather difficult (Frazier and Howell, 1983; Buckley *et al.*, 1988; Baker and Hart, 1989).

Measures of firm performance generally include bottom-line financial indicators such as sales, profits, cash flow, return on equity, and growth. It is however, also important to determine how a firm compares with its industry competitors when assessing firm performance (Dess and Robinson, 1984). With the multitude of competitive environments faced by firms in different industries, knowing only absolute financial numbers such as sales, profits, or cash flow is not very illuminating unless viewed in the context of how well the firm is doing compared to their competition. Therefore, it is important to use an industry comparison approach when making firm performance assessments for organizations sampled from a wide variety of industries. This study assessed the relationship between Porter's generic business strategies and Key Performance Indicators such as market share; profitability and business growth so as to enable investors in the various industries make informed decisions.

2.5 Conceptual Framework

The conceptual framework shows a diagrammatic relationship among the principle variables – differentiation, cost leadership, focus and organizational performance. Figure 2.2 below presents the conceptual framework

Figure 2.2: Conceptual Framework



Source: The Author

This chapter reviewed the relevant literature in terms of theoretical background, Porter's generic business strategies, firm performance measures, identifying organizational performance measures and the Author's conceptual framework showing a diagrammatic relationship among the principle variables and organizational performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter defines the research design and methodology for the study. It contains a description of the study design, population of the study, sampling design, data collection instruments and procedures, data analysis and presentation.

3.2 Research Design

For purposes of this study, a descriptive cross sectional survey was undertaken. The method was preferred as it permitted gathering of data from the respondents in natural settings. Descriptive designs result in a description of the data, whether in words, pictures, charts, or tables, and whether the data analysis shows statistical relationships or is merely descriptive. Descriptive research is designed to describe the characteristics or behaviors of a particular population in a systematic and accurate fashion. Survey research uses questionnaires and interviews to collect information about people's attitudes, beliefs, feelings, behaviors, and lifestyles. The design was used to describe the what, who, when, how and whereof the phenomenon. It had been used in the past by many researchers, including Kibiru, 1999; Murage, 2001; Ndubai, 2003; and Ogolla, 2005.

3.3 Population of the study

The population of the study consisted of all the registered Multinational Pharmaceutical wholesalers in Kenya, whose number stood at 40 as at July, 2012 (Pharmacy and Poisons Board, 2012). The pharmaceutical wholesalers are located in the major towns in Kenya

and can be stratified in terms of distribution on the basis of the eight provinces. Due to the small number of population of the study, a census study was conducted. In each of the Pharmaceutical Wholesalers' organizations, the Business Development manager or the equivalent constituted the respondent.

3.4 Data Collection

A semi-structured questionnaire was used to collect primary data from the respondents. Closed ended questions were presented on a Likert type scale. The Likert type scale, commonly used in business research was applied because it allows participants to provide their perceptions and opinions both in terms of direction (positive or negative) and intensity (degree of agreement or disagreement). The ratings were on a scale of 1 (lowest impact or least important) to 5 (highest or most important). The questionnaire had two main sections. Section I captured the profile of the respondents and the pharmaceutical wholesalers while section II captured information on the use of competitive strategies by pharmaceutical wholesalers in Kenya.

The questionnaire was pre-tested on a small number of respondents who were selected on a judgmental basis. The researcher and/or the research assistant delivered by hand, the questionnaires to the personnel in charge of business development in the Pharmaceutical wholesalers located in Nairobi and its environs while for those located outside Nairobi, the questionnaires were emailed to them. A letter of introduction and questionnaire was enclosed in an envelope delivered to the respondents. In addition, the researcher made telephone calls to the respective respondents to further explain the purpose of the study

and set a time frame for the completion of the questionnaires. The respondents were given a period of two weeks to complete and return the questionnaires. Once completed, the researcher collected the questionnaires.

3.5 Data analysis and presentation

The Statistical Package for Social Sciences (SPSS) was used as an aid in the analysis. The researcher preferred SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis. The collected data from the questionnaire and secondary sources were systematically organized in a manner to facilitate analysis. For purposes of the study, the data pertaining to the profile of respondents were analyzed using measures of central tendency and dispersion. In order to determine the relationship between Porter's Generic Strategies and firm performance, correlation and regression analyses was undertaken. Measures of central tendency (mean scores and percentages) and measures of dispersion (range, variance and standard deviation) were computed as appropriate. In addition, bar charts, pie charts and graphs were also used. The information was presented and discussed as per the objectives.

Summary:

Objective	Questions which would gather the required data	Statistics to be computed
Establish the extent to which pharmaceutical wholesalers in Kenya have adopted Porter's generic business strategies.	Question 13	Frequencies, Percentages, Measures of central tendency (mean scores and percentages) and measures of dispersion (range, variance and standard deviation)
Asses the relationship between Porter's generic business strategies and key performance indicators such as market share, profitability and business growth.	Question 14	Correlation and regression analyses
Identify the challenges faced by the pharmaceutical wholesalers in Kenya in implementing Porter's generic business strategies.	Question 15	Frequencies and percentages

Source: The Author

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1: Introduction

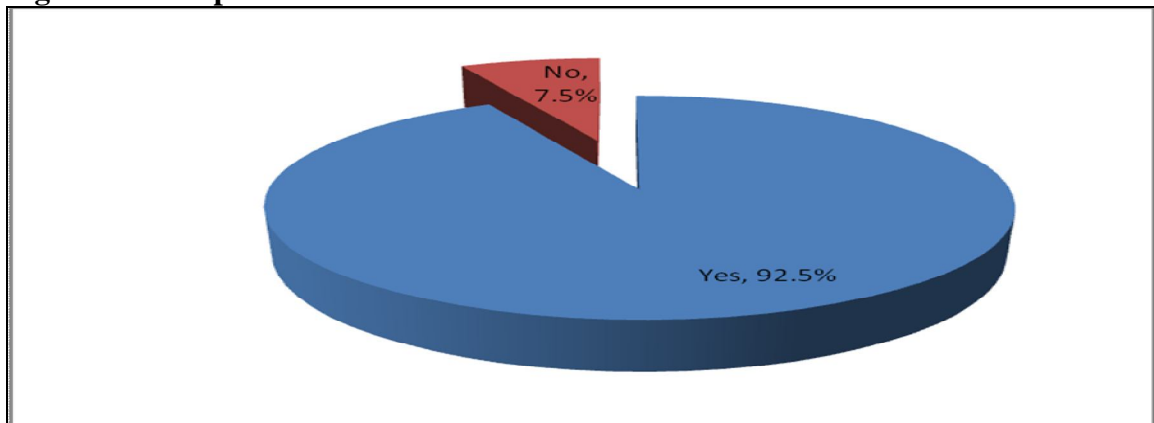
The research objective was to examine the application of Porter's generic strategies by Pharmaceutical wholesalers in Kenya. This chapter presents the analysis and findings with regard to the objective and discussion of the same. The data was collected from the 40 Multinational Pharmaceutical wholesalers in Kenya. Respondents were personnel in charge of business development in the Pharmaceutical wholesalers. The findings are presented in percentages and frequency distributions, mean and standard deviations.

4.2: General information

4.2.1: Response Rate

A total of 40 questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the 40 questionnaires issued, 37 were returned. The returned questionnaires represented a response rate of 92.5%, which the study considered adequate for analysis.

Figure 4.1: Response Rate



Source: Primary data

4.2.2: Distribution of respondents by ownership

As shown in table 4.2.1, most (75.68%) of the respondents firms were predominantly foreign owned. 16.22% were both local and foreign owned while only 8.10% were predominantly locally owned.

Table 4.2.1: Ownership structure

	Frequency	Percent
Predominantly local (51% or more)	3	8.10
Predominantly foreign (51% or more)	28	75.68
Balanced between foreign and local (50/50)	6	16.22
Total	37	100.0

Source: Primary data

4.2.3: Distribution of respondents by length of operation in Kenya (Years).

The findings in table 4.2.2, indicates that 46% of the firms had been operating in Kenya for over 16 years, 37.8% for 11 to 15 years and the rest (16.2%) had been in operation in the country for a period of 6 to 10 years.

Table 4.2.2: Length of operation in Kenya (Years).

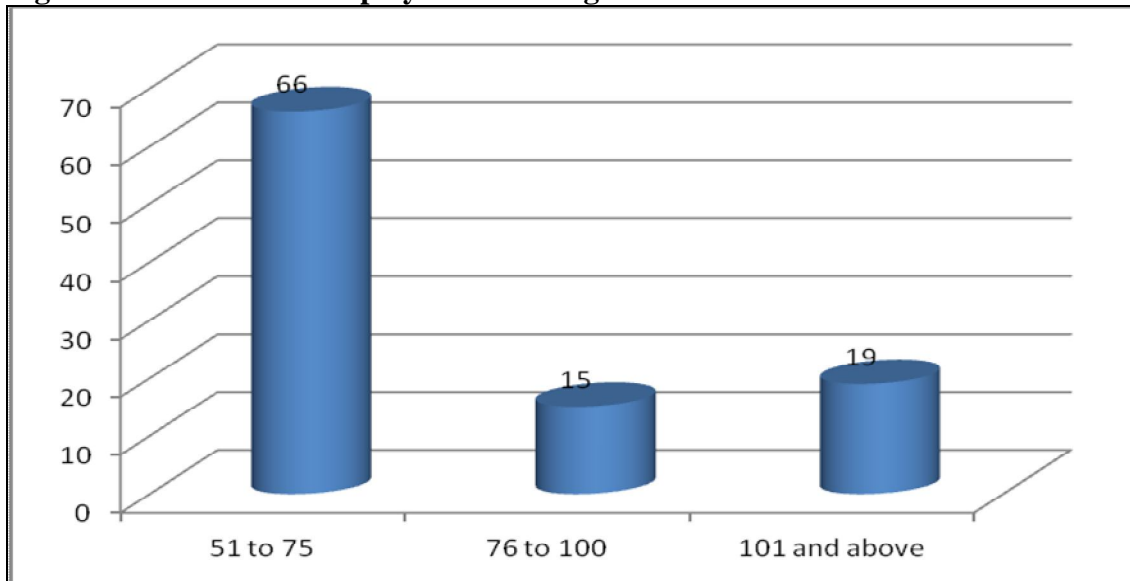
Period	Frequency	Percent
6 to 10 Years	6	16.2
11 to 15 Years	14	37.8
16 Years and above	17	46
Total	37	100

Source: Primary data

4.2.4: Distribution of respondents by number of employees

When asked to state the number of employees in their respective firms, 66% stated that they had between 51 to 75 employees, 15% had 76 to 100 employees while 19% had 101 and above employees respectively.

Figure 4.2: Number of employees in the organization

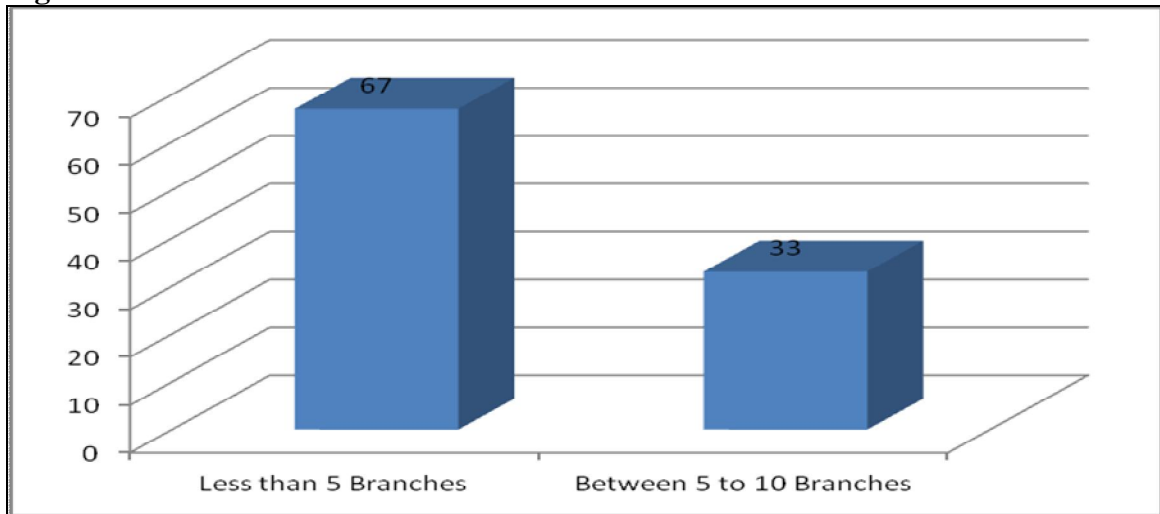


Source: Primary data

4.2.5: Distribution by number of branches

The findings presented in table 4.2.3, indicates that 33% of the respondents firms had between 5 to 10 branches while the rest 67% had less than 5 branches.

Figure 4.3: Number of Branches



Source: Primary data

4.2.6: Age Bracket

The findings presented in table 4.2.3 show that, 51.4% of the respondents were of age 36-45 years, 40.5% were between 46-55 years of age, 5.4% were between 26-35 years old and a few (2.7%) were above 55 years. On average the majority of the employees are between the age brackets of 36-55 years.

Table 4.2.3: Distribution of Respondents by Age

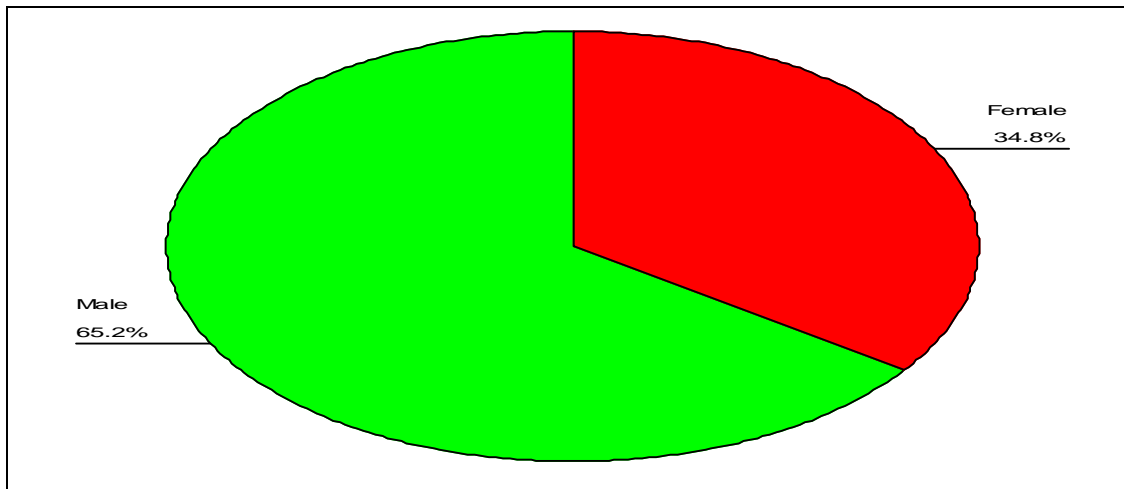
	Frequency	Percent
26 – 35	2	5.4
36-45	19	51.4
46-55	15	40.5
Above 55	1	2.7
Total	37	100.0

Source: Primary data

4.2.7: Distribution of respondents on gender

As can be observed, in Figure 1, the respondents were made up of 65.2 % male and 34.8% female.

Figure 4.4: Gender Composition



Source: Primary data

4.2.8: Distribution of respondents by level of education

The findings presented in table 4.2.4 show that, 27% of the respondents had postgraduate level of education, 56.8% were graduates, 10.8% had college diploma and only 5.4% had secondary school certificate.

Table 4.2.4: Distribution of respondents by level of education

Level of education	Frequency	Percentage
Secondary school	2	5.40
College Diploma	4	10.80
Graduate Degree	21	56.80
Post Graduate Degree	10	27.00
Total	37	100

Source: Primary data

4.2.9: Length of Service with organisation (years)

The results presented in table 4.2.5 indicate that the number of years of service in the current organisation varies from a period of 1 year to over 16 years. 8.2% of the respondents had worked in their respective organizations for a period of 1 to 5 years, 16.2% had worked for a period of 6 to 10 years, 35.1% had worked for a period of 11 to 15 years and 40.5% had worked for a period of 16 years and above. Majority of the respondents have worked in their organization over 11 years, thus there is high level of understanding of their organization.

Table 4.2.5: Length of Service with organisation (years)

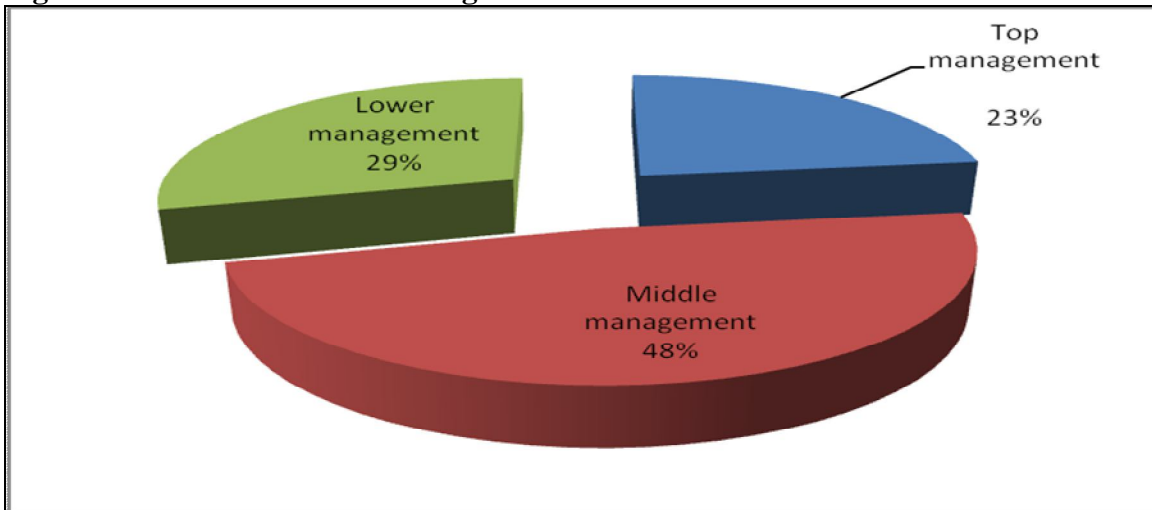
Number of service years	Frequency	Percent	Cumulative Percent
1 - 5 years	3	8.2	8.2
6-10 years	6	16.2	24.4
11-15 years	13	35.1	59.5
16 years and above	15	40.5	100.0
Total	37	100.0	

Source: Primary data

4.2.10: Position held in the organization

As can be observed, in figure 4.5, 23% of the respondents were in top management, 48% were in middle management while the rest 29% were in lower management. The respondents' distributions are line with the expected practice in most organization.

Figure 4.5: Position held in the organization

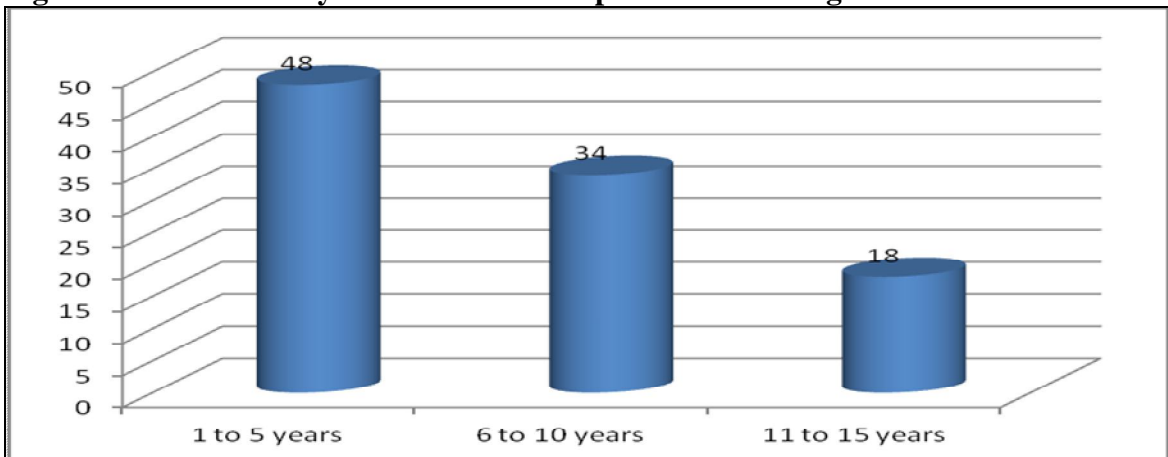


Source: Primary data

4.2.11: Number of years in the current position in the organization

The number of years held in the current position indicates the mobility of employees within the firm in terms of promotions, stagnation and new openings. As indicated in figure 4.6, there is significant growth in the organizations in that majority (48%) of the respondents had been in their current positions for a period of 1 to 5 years, 34% had served in the current position for a period of 6 to 10 years and the rest (18%) had served for a period of 11 to 15 years respectively.

Figure 4.6: Number of years in the current position in the organization



Source: Primary data

4.3: Competitive strategies used by pharmaceutical wholesalers in Kenya

This section covers findings from the specific questions posed to the respondent's to determine the extent to which some predetermined strategic practices are used by their respective pharmaceutical firms in Kenya. The range was 'very great extent' (5) to 'not at all' (1). The scores of very great extent and great extent have been taken to present a variable which had an impact to a large extent (L.E) (equivalent to mean score of 3.5 to 5.0 on the continuous Likert scale ;($3.5 \leq L.E < 5.0$). The scores of 'moderate extent' have been taken to represent a variable that had an impact to a moderate extent (M.E.) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale ($2.5 \leq M.E. < 3.4$). The score of both 'little extent' and 'not at all' have been taken to represent a variable which had an impact to a small extent (S.E.) (equivalent to a mean score of 0 to 2.5 on a continuous Likert scale; $0 \leq L.E. < 2.5$). A standard deviation of >0.9 implies a significant difference on the impact of the variable among respondents.

Table 4.3.1: Extent to which various strategic practices are used

Strategic practices	Mean	Std. Dev
Vigorous pursuit of cost reductions	1.1739	.3767
Providing outstanding customer service	4.0652	.7118
Improving operational efficiency	3.6652	.7717
Controlling quality of products/services	4.3652	.2046
Intense supervision of frontline personnel	4.1304	.8329
Developing brand name identification	4.2609	.8282
Developing company name identification.	3.7348	.2229
Targeting a specific market niche or segment	2.8478	.8936
Providing specialty products/services	2.9348	.4047

Source: Primary data

From the findings to a great extent; controlling quality of products/services (mean of 4.3652), Developing brand name identification (mean of 4.2609), intense supervision of frontline personnel (mean of 4.1304), providing outstanding customer service (mean of 4.0652), Developing company name identification (mean of 3.7348) and improving operational efficiency (mean of 3.6652) were the strategic practices used by multinational pharmaceutical wholesalers.

On a moderate extent; providing specialty products/services (mean of 2.9348) and targeting a specific market niche or segment (mean of 2.8478). It was also noted that vigorous pursuit of cost reductions (mean of 1.1739) was the least used strategic practice by multinational wholesalers in the pharmaceutical industry in Kenya.

4.4: Performance of Pharmaceutical wholesalers in Kenya

The respondents were asked to make comparison of their organization's performance levels on some predetermined indicators. The finding were as shown in table 4.4.1 below

Objective performance indicators	Lowest 1-20 Percent	Lower 21-40 percent	Middle 41-60 percent	Next 61-80 Percent
Total revenue growth	18.9	54.1	16.2	10.8
Total asset growth	13.5	21.6	24.3	40.5
Net income growth	13.5	32.4	32.4	21.6
Market share growth	13.5	21.6	43.2	21.6
Overall performance	10.8	21.6	43.2	24.3

Source: Primary data

Performance comparison of various firms varies from one indicator to another. More specific; most firms had total revenue growth of 21 to 40 percent at 54.1%, total asset growth of 61 to 80% level at 40.5%, most firms (32.4%) had net income growth of 21 to 60 percent and market share growth of 41 to 60% at 43.2%. On overall performance majority of the firms were in the category of 41 to 60% rate.

4.5: Regression and correlation analysis

The study used regression and correlation analysis to come up with the relationship between organization performance (market share) and porter’s generic business strategies (differentiation strategies, cost leadership strategies and focus strategy) used by pharmaceutical wholesalers in Kenya. The results were as follows:

4.5.1: Correlation analysis

A correlation matrix was used to check on multi-Collinearity, that is, if there is a strong correlation between two predictor variables. A factor of 0.5 was used to check multi-Collinearity. In a situation where two predictor variables have a correlation coefficient of more than 0.5, then one of them must be dropped from the model using their P- values.

Table 4.5.1: Pearson Correlation

	Differentiation strategy	Cost leadership strategy	Focus strategy
Differentiation strategy	1.000		
Cost leadership strategy	.242	1.000	
Focus strategy	.243	.218	1.000

Source: Primary data

The finding in table 4.5.1 above shows that none of the predictor variable is strongly correlated with each other. All of them had coefficients < 0.5 , thus a model of three predictor variables could be used in forecasting firm performance (market share).

Table 4.5.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.932 ^a	.869	.864	1.01825	.869	3.746	3	33	.000

a. Predictors: (Constant), Focus strategy, Cost leadership strategy, Differentiation strategy

Source: Primary data

The model summary explains the overall significance of the multiple regression equation. The coefficient of determination (R^2) equals 0.869, that is, 86.9 percent of the variation in firm performance (market share) can be explained by the changes in Differentiation strategy, Cost Leadership strategy and Focus strategy leaving 13.1 percent unexplained. The P- value of $0.000 < 0.05$ indicates that the model of firm performance (market share) is significant at the 5 percent significance level

4.5.3: Regression equation

Table 4.5.3: Coefficients of regression equation

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	
		B	Std. Error	Beta			
1	(Constant)		1.127	.723		1.560	.128
	Differentiation strategy	X ₁	.446	.124	.042	3.597	.002
	Cost leadership strategy	X ₂	.196	.078	.362	2.513	.004
	Focus strategy	X ₃	.388	.107	.147	3.626	.001

The established multiple linear regression equation becomes:

$$Y = 1.127 + 0.446X_1 + 0.196X_2 + 0.388X_3$$

Source: Primary data

Elasticity

$b_1 = 0.446$, shows that one unit increase in application of differentiation strategy results in 0.446 units increase in firm performance (market share) holding other factors constant.

$b_2 = 0.196$, shows that one unit increase in application of cost leadership strategy results in 0.196 units increase in firm performance (market share) holding other factors constant.

$b_3 = 0.388$, shows that one unit increase in application of focus strategy results in 0.388 units increase in firm performance (market share) holding other factors constant.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0: Introduction

In this section we discuss the main findings, draw conclusions and make recommendations.

5.1 Summary

The objective of the study was to examine the application of Porter's generic strategies by Pharmaceutical wholesalers in Kenya. This involved looking at the influence of differentiation strategy, cost leadership strategy and focus strategy on organizational performance. At the same time majority of the respondents have worked in their organization over 11 years, thus there is high level of understanding of their organization. This shows that the information obtained would be reliable and suitable for generalization in the context of the Kenyan pharmaceutical industry.

The study indentified the following strategic practices as the most commonly used competitive strategies by pharmaceutical wholesalers in Kenya; controlling quality of products/services, Developing brand name identification, intense supervision of frontline personnel, providing outstanding customer service, Developing company name identification and improving operational efficiency. On the other hand the least used strategic practice by pharmaceutical firms was vigorous pursuit of cost reductions. This could be attributed to the fact that most multinational pharmaceutical wholesalers studied were foreign owned thus invest more in research and development of new drugs

rather than manufacturing of generic drugs. Such multinational pharmaceutical wholesalers thus tend to pursue the differentiation strategy more than they would cost reduction strategies. These companies are mostly pioneers of new drugs in the industry hence tend to focus on strategies that differentiate them from generic companies which pursue vigorous cost reduction strategies.

The study used regression analysis to find the relationship between organization performance (market share) and porter's generic business strategies (differentiation strategies, cost leadership strategies and focus strategy) used by pharmaceutical wholesalers in Kenya. The finding of the study indicated that the model was significant for forecasting the firm's performance. This was demonstrated in the part of the analysis where R^2 for the association was 86.9%. The respondents strongly associated their firm's performance with the strategy adopted.

All the predictor variables were also linearly related with the dependent variable thus a model of three predictor variables could be used in predicting organization performance (market share). More so differentiation strategy and focus strategy were the main strategies used by pharmaceutical firms in Kenya.

Some of the challenges faced by pharmaceutical wholesalers in Kenya while pursuing porter's generic strategies included but were not limited to the following:

Majority of patients in the country were of low disposable income hence could not afford the premium price of Multinational pharmaceutical brands. Such patients therefore tend

to switch to cheaper generic substitutes. Health management organizations were also a hindrance to firm's growth because of the annual limits for expenditure on drugs that were imposed on patients which in turn resulted to patients opting for cheaper substitutes. Most firms faced challenges with regard to their innovative pipelines with majority having limited new molecules to introduce to the market. This trend could result in some firms changing their strategy to hybrid rather than pure strategies to face the changing competitive environment.

The presence of counterfeit drugs in the market affected customers' perception of brands from these pharmaceutical wholesalers. Parallel imports were also an impedance to firm's performance indicators such as growth, market shares and profits. Importers of parallel brands from principle companies outside the country do not incur operational costs hence sell their drugs at very low prices. This resulted in registered pharmaceutical wholesalers losing some of their market share to such parallel importers.

5.2: CONCLUSION

This study showed that Pharmaceutical wholesalers in Kenya were varied in their ownerships with most (75.68%) of them being foreign owned. Strategies employed by multinational pharmaceutical firms in Kenya were mostly differentiation and focus strategies. From the findings and data analysis, the relationship between Porter's generic strategies and firms performance (represented by market share as an indicator), was summarized by the multiple linear regression equation: $Y = 1.127 + 0.446X_1 + 0.196X_2 + 0.388X_3$, Where Y represented market share and X_1 , X_2 and X_3 were differentiation, cost leadership and focus strategies respectively. The study model of three predictor variables

was significant for forecasting the firm's performance. This was demonstrated in the part of the analysis where R^2 for the association was 86.9%. Respondents in the study strongly attributed their firm's performance to the strategies adopted thus suggesting that pursuit of one generic business strategy as suggested by Porter, placed a firm in a better strategic position and resulted in superior performance rather than a situation where the firm was "stuck in the middle".

5.3: RECOMMENDATIONS

5.3.1: Recommendation to policy makers

Based on the review of Kenya's pharmaceutical wholesalers' adoption of Porters generic strategies derived from analyses in earlier sections, the following is a set of recommendations to policy makers in the pharmaceutical industry:

The Ministry of Medical services while procuring mostly low priced brands through the tendering process at KEMSA, should consider strengthening regulations that support the inclusion of Multinational pharmaceutical wholesalers in public procurement of medicines. This will enhance such firm's performance locally, thereby creating opportunity for further investment in research and development of new drugs.

The Pharmacy and Poisons board should strengthen post market surveillance in order to control substandard and counterfeit drugs in the Kenyan market by enhancing pharmacovigilance and instituting guidelines and protocols for drug registrations. This will enable Multinational pharmaceutical wholesalers compete effectively thereby investing more into research and development of new drugs.

The GoK should consider establishing a package of incentives (in terms of taxes and duties) to encourage more investment by multinational wholesalers in the Kenyan pharmaceutical industry.

5.3.2: Recommendation to managers of Multinational pharmaceutical wholesalers

Multinational pharmaceutical wholesalers are interested in Kenya because the country is forecast to experience rapid macroeconomic growth. This will drive the emergence of a middle class that will be able to afford expensive branded and patented drugs. Differential pricing may be necessary in the medium term for multinationals to establish a presence in Kenya, but Multinational firms should not try to compete with Asian and local pharmaceutical firms on price. Instead they need to market their drugs as aspirational products for the uppermost earners.

5.3.3: Recommendation for Further Research

Further research to establish factors that lead to change in firms' competitive strategies within the pharmaceutical industry in Kenya is recommended. This will enable managers of pharmaceutical companies understand the changing competitive environment within the industry and options available to them should they need to review their strategic position.

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APPENDIX II: QUESTIONNAIRE

This questionnaire has been designed to collect information from Business Development managers (or their equivalent) of Multinational Pharmaceutical Wholesalers in Kenya and is meant for academic purposes only. The questionnaire is divided into two sections. Please complete each section as instructed. Do not write your name or any other form of identification on the questionnaire. All the information in this questionnaire will be treated in confidence.

SECTION I: BACKGROUND INFORMATION

1. Name of Pharmaceutical Wholesaler
(Optional).....
2. Please indicate your organization's country of origin.....
3. Please indicate the ownership in terms of (local or foreign) of the organization using the categories below (please tick one)
Predominantly local (51% or more) []
Predominantly foreign (51% or more) []
Balanced between foreign and local (50/50) []
4. For how long has this firm been in operation in Kenya? (Tick as appropriate)
Less than 1 year []
1 to 5 years []
6 to 10 years []
11 to 15 Years []
16 years and above []
5. How many full time employees does the organization have (Pleas tick as appropriate)?
Up to 25 []
26 to 50 []
51 to 75 []
76 to 100 []
101 and above []
6. Using the categories below, please indicate the number of branches you have in Kenya
Less than 5 []
Between 5-10 []
Between 11-20 []
Above 20 []

7. Please indicate the age group to which you belong (Tick as appropriate)
- | | |
|----------------|--------------------------|
| Up to 25 years | <input type="checkbox"/> |
| 26 to 35 years | <input type="checkbox"/> |
| 36 to 45 years | <input type="checkbox"/> |
| 46 to 55 years | <input type="checkbox"/> |
| Above 55 years | <input type="checkbox"/> |

8. What is your gender? (Tick as appropriate)
- | | |
|--------|--------------------------|
| Male | <input type="checkbox"/> |
| Female | <input type="checkbox"/> |

9. What is your highest level of education?
- | | |
|----------------------|--------------------------|
| Post Graduate Degree | <input type="checkbox"/> |
| Undergraduate Degree | <input type="checkbox"/> |
| College Diploma | <input type="checkbox"/> |
| Secondary School | <input type="checkbox"/> |
| Primary School | <input type="checkbox"/> |
- Others please specify in the provided space.

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10. For how long have you worked in the organization? (Tick as appropriate)
- | | |
|-------------------------|--------------------------|
| Less than 1 year | <input type="checkbox"/> |
| Between 1 and 5 years | <input type="checkbox"/> |
| Between 6 and 10 years | <input type="checkbox"/> |
| Between 11 and 15 years | <input type="checkbox"/> |
| 16 years and above | <input type="checkbox"/> |

11. Please indicate your position in the organization.....

12. For how long have you been in your current position in the organization? (Tick as appropriate)
- | | |
|-------------------------|--------------------------|
| Less than 1 year | <input type="checkbox"/> |
| Between 1 and 5 years | <input type="checkbox"/> |
| Between 6 and 10 years | <input type="checkbox"/> |
| Between 11 and 15 years | <input type="checkbox"/> |
| 16 years and above | <input type="checkbox"/> |

SECTION II: THE APPLICATION OF PORTER’S GENERIC STRATEGIES BY PHARMACEUTICAL WHOLESALERS IN KENYA

13. Competitive strategies used by Pharmaceutical Wholesalers in Kenya

Listed below are possible strategic practices used by organizations. With respect to your organization, indicate the extent to which each of the listed strategic practice is used. (Tick as appropriate)

Strategic practices used	Response				
	To a very great extent (5)	To a great extent (4)	To a moderate extent (3)	To a small extent (2)	Not at all. (1)
Vigorous pursuit of cost reductions					
Providing outstanding customer service					
Improving operational efficiency					
Controlling quality of products/services					
Intense supervision of frontline personnel					
Developing brand name identification					
Developing company name identification.					
Targeting a specific market niche or segment					
Providing specialty products/services					
Other (Specify)					
Other (Specify)					

14. Performance of Pharmaceutical Wholesalers in Kenya

Please make a comparison of your organization’s performance level to that of competitors for each of the five items, during the last three years.

Objective performance indicators	Average over three years					
	Lowest 1-20 percent	Lower 21-40 percent	Middle 41-60 percent	Next 61-80 percent	Top 81-100 percent	>100 Percent (specify)
Total revenue growth						
Total asset growth						
Net income growth						
Market share growth						
Overall performance						
Other(Specify)						

15. Please name three most critical challenges (where first is the greatest challenge) which your organization faces in its implementation of the business strategies.
