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Rabi, H. Y., & Nyang'au, S. P.

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[1] Rabi, H. Y., & [2] Nyang'au, S. P.

[1] Master Student, Jomo Kenyatta University of Agriculture and Technology [JKUAT], Kenya
[2] Doctor, Lecturer, Jomo Kenyatta University of Agriculture and Technology [JKUAT], Kenya

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ABSTRACT

The general objectives of this project was to evaluate the influence of porter's five model strategy on the competitiveness of SMEs in Garissa County. The study used descriptive design. The study was limited to the Small and Medium Enterprises that operate in Garissa County. This study utilized a sample size of 54 respondents. The researcher used questionnaires and secondary data as the research instrument to gather the relevant information needed related to the study. The quantitative data was analyzed using descriptive statistics. In addition the study used multiple regression analysis to analyze the data. The study concluded that there is great significance of competitors in benchmarking; keeping the management on toes and increasing efficiency and effectiveness. Competitors remain the key to success and achievement of competitive edge through innovation. The study further conclude that the threat of new entrants applies to in the Small and Medium Enterprises due to the presence of various competing organizations performing similar roles and offering such products and services at lower rates. This study also concluded that the bargaining power of buyers in the Small and Medium Enterprises is critical in terms of understanding the firms' buyers and successfully meeting their demands as a way of retaining them and achieving high customer satisfaction for repeat sales. The study finally concluded that substitute product constrains the ability of firms in an industry to raise prices. This study recommended that Small and Medium Enterprises should always consider how new technology advancement is going to improve on the products offered and their prices before making the strategic decision of adopting it for their operations. In response to the increasing number and strength of competitors this study recommended that the Small and Medium Enterprises should increase their product diversity and customize its products in a way that suits and retains the already existing customers as well as increase quality, efficiency and effectiveness in product delivery.

Key words: *bargaining power of the buyer and supplier, threats of substitutes, new entrants & industry rivalry*

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INTRODUCTION

All enterprises strive to maintain profitability but only few understand that responding to competition strategically is the right approach. Michael Porter laid down the foundation of a strategy that would help managers analyse the degree of competitiveness within an industry by putting forth the Five Forces Model which are: competing among existing industry rivals, the threat of new entrants to the market, the threat of substitute products or services, the bargaining power of suppliers, and the bargaining power of buyers. Porter‟s model thus remains a valuable and practical model that has potential for further development by using a systems approach that examines it as part of a broader system of interacting factors (Grundy, 2006). It is a framework that classifies and analyses the most important forces affecting the intensity of competition in an industry and its profitability level (Porter, 2008).The tool is very helpful in formulating firm's strategy as it reveals how powerful each of the five key forces is in a particular industry are (Porter, 2008).

Statement of the Problem

Porter's Five Forces model is centred around competition. In any industry, multiple firms compete against each other for customers by offering better or cheaper products than their rivals.A firm is described as having a competitive advantage when it successfully attracts more customers, earns more profit, or returns more value to its shareholders than rival firms do. A firm achieves a competitive advantage by adding value to its products and services or reducing its own costs more effectively than its rivals in the industry.

Small and medium enterprises are considered as the backbone of the economy. Indeed, in many developing countries as well as developed countries, small and micro enterprises are the focal point of growth and self-employment. In low-income countries, it is estimated that small and micro enterprises account for more than 60 per cent of the GDP and provide over 70 per cent of employment opportunities (Lukacs, 2005). In Garissa, the SMEs contribute, to economic, growth of the County through creation of employment. Over 10% of the revenue collected by the county governments comes from these SMEs. At the same time, about 30% of the population derives income and revenue from these SMEs. The main sectors include: retail chain distributions, food and beverages restaurants, open air markets, animal sales among others. There are 3097 registered SMEs in Garissa County, which are the engine of economic development and contribute to sustainable growth and employment generation.

A study by Kulmia (2014) on competitiveness in the supermarket industry in Kenya using porter's five forces found that there is a positive relationship between the porter's five forces model and competition in the supermarket industry in Kenya. Shao(2015) researched on Competitive strategies and Porter's five forces model by the insurance companies in Kenya. The Finding was that the insurance companies in Kenya do apply the Porter's five forces model in establishing competitive strategies to a great extent. Mzera (2013) did a research on analysis of the competitiveness of private colleges in Mombasa using Porter's five forces model. The finding was that the extent to which the Porter's five forces model influences competitiveness is great. Thus, although studies have been done on porter's five Forces Model and the performance of SMEs, the studies, however, focus in different contexts away from Garissa County creating an empirical, contextual and conceptual gaps presented. To fill these gaps, the current aimed to assess the influence of Porter's Five Forces Model on thecompetitiveness of SMEs in Garissa County, Kenya.

Objectives of the Study

- To analyse the influence of the bargaining power of the buyer and supplier on the competitiveness of Small and Medium Enterprises in Garissa County of Kenya.
- To evaluate the influence of threats of substitutes on the competitiveness of Small and Medium Enterprises in Garissa County of Kenya.

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- To investigate the influence of the new entrants on the competitiveness of Small and Medium Enterprises in Garissa County of Kenya.
- To assess the influence of industry rivalry on the competitiveness of Small and Medium Enterprises in Garissa County of Kenya

LITERATURE REVIEW

Theoretical review

Michael Porter Five Force Model

Porter's Five Forces Analysis is an important tool for assessing the potential for profitability in an industry. With a little adaptation, it is also useful as a way of assessing the balance of power in more general situations.This tool was created by Harvard Business School professor, Michael Porter, to analyze the attractiveness and likely-profitability of an industry. The Porter's 5 Forces tool is a simple but powerful tool for understanding where power lies in a business situation. This is useful, because it helps you understand both the strength of your current competitive position, and the strength of a position you're considering moving into. With a clear understanding of where power lies, you can take fair advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps.

Resource Based Theory

Warnier, Weppe and Lecocq (2013) discusses that Resource Based Theory (RBT) is based on earlier studies, notably the work of Penrose (1959) among others, and has been developed in work of Wernerfelt (1984) which is regularly cited in research asserting a resources approach. For Penrose, the essence of the firm is strongly linked to the concept of resources since she defines it as "a collection of productive resources, where the choice of different uses of these resources over time is determined by administrative decision" (Penrose, 1959). While the work of Penrose (1959) concerning the growth of the firm considers all resources (productive and administrative) globally, research in strategic management has then mainly focused on a certain type of resources, that is, strategic resources.The heterogeneous nature of resources and their uneven distribution between competing firms is one of the cornerstones of RBT as it helps to explain competitive advantage (Peteraf, 1993). However, the concept of heterogeneity is defined in a restrictive way since, in the end, only strategic resources are taken into consideration in the analysis: "it signifies, simply, that strategic resources are distributed unevenly across firms, or that different firms possess different bundles of strategically relevant resources" (Peteraf & Barney, 2003).

The Profit-Maximizing Theory

This theory is based on the notion that business organization main objective is to maximize long term profit and developing sustainable competitive advantage over competitive rivals in the external market place. The industrial-organization (I/O) perspective is the basis of this theory as it views the organization external market positioning as the critical factor for attaining and sustaining competitive advantage, or in other words, the traditional I/O perspective offered strategic management a systematic model for assessing competition within an industry (Porter, 1981). The theory of competitive advantage is derived from an understanding of the rules of competition that govern an industry and determine its attractiveness.The ultimate goal of competitive strategy is to influence those rules in one's own company's favor. This theory helps the study in presenting the different competitive forces that bears down on a business (Hall & Hitch, 1939).

Conceptual framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of inquiry and used to structure a subsequent presentation (Reichel and Ramey, 1987). It is a tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny. It helps the research to explain the relationship among interlinked concepts such as the dependent and independent variables (Kombo, 2006). It will be conceptualized within the dependent-independent

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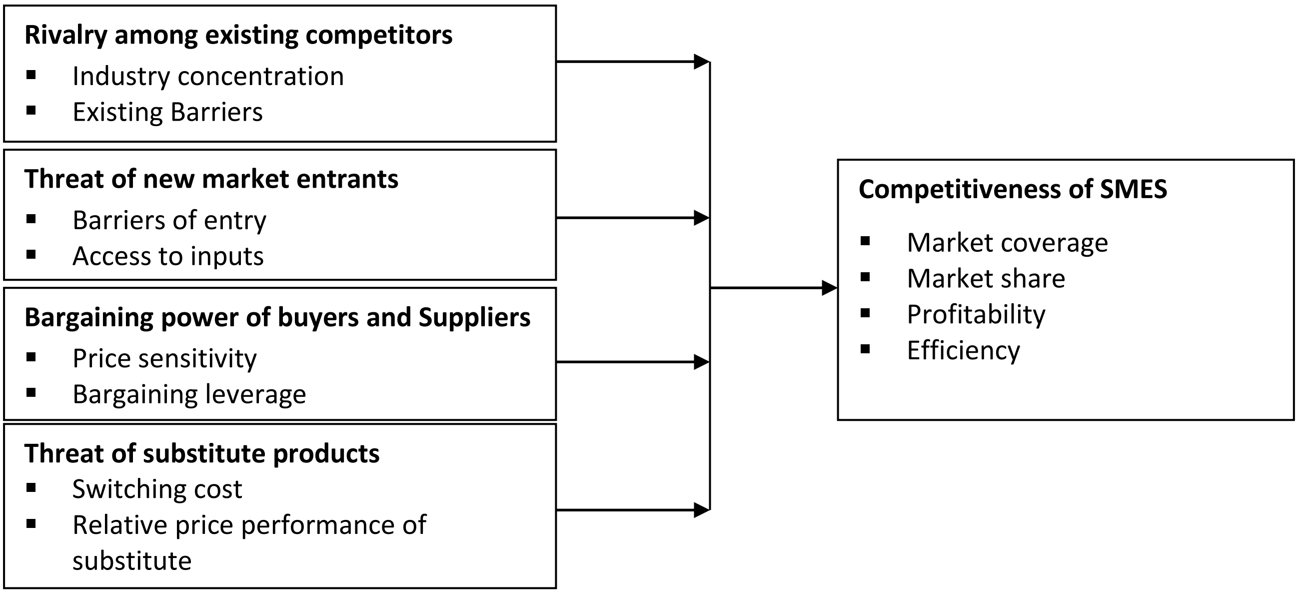
variable components and their indicators. The figure below shows a diagrammatic representation of the relationship between the dependent and independent variables.



Independent variables **Dependent variable**

Figure 1: Conceptual Framework

METHODOLOGY

This study adopted a descriptive and exploratory research design. The target population was 180 of Small and Medium Enterprises that operate in Garissa County. The use of 54 respondents in the study was justified as it was in line with the recommendations of Mugenda and Mugenda (2009) who indicated that a descriptive study should include at least 30% of the total population. The researcher used questionnaires and secondary data as the research instrument to gather the relevant information needed related to the study. The study carried out a pilot test to test the validity and reliability of the questionnaires in gathering the data required for purposes of the study. The data was summarized and then analyzed by the use of descriptive statistics comprising of tables, graphs and percentages.

RESULTS

Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	STD error of the Estimate
1	0.88	0.74	0.67	0.72

R-Squared is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted R2, also called the coefficient of multiple determinations, is the Percentage of the variance in the dependent explained uniquely or jointly by the independent variables. 67% of the changes in the competitiveness of Small and Medium Enterprises could be attributed to the combined effect of the predictor variables.

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Table 2: Summary of One-Way ANOVA results

Model		Sum of Square	Df	Mean Square	F	Sig
1	Regression	9.21	3	2.31	9.30	0.0001
	Residual	42.87	39	0.25		
	Total	52.10	42			

The probability value of 0.0001 indicated that the regression relationship was highly significant in predicting how existing competitors, threat of new market entrants, bargaining power of buyers and threat of substitute products Influenced competitiveness of the Small and Medium Enterprises.The F calculated at 5% level of significance was 9.30 since F calculated is greater than the F critical (value =2.5252), this shows that the overall model was significant.

Table 3: Regression coefficients of the relationship between competitiveness of the Small and Medium Enterprises and the five predictive variables

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig
1	(Constant)	1.054	0.215		4.86	0.000274
	Rivalry	0.684	0.140	0.612	4.57	0.000904
	New entrants	0.700	0.180	0.148	3.88	0.000150
	Bargaining power of buyers	0.570	0.195	0.235	3.07	0.00025
	Substitute products	0.761	0.090	0.137	8.30	0.000183

As per Table 3, the equation ($Y = \beta 0 + 0.684X_1 + 0.700X_2 + 0.570X_3 + 0.763X_4 + 0.780X_5 + \varepsilon$) becomes:$Y = 1.053 + 0.684X_1 + 0.700X_2 + 0.570X_3 + 0.763X_4 + \varepsilon$)
Where Y is the dependent variable the competitiveness of the Kenyan manufacturing firms

X1 – Rivalry among existing competitors
X2 - Threat of new market entrants
X3 - Bargaining power of buyers
X4- Threat of substitute products

The regression equation above has established that taking all factors into account (Rivalry among existing competitors, Threat of new market entrants, bargaining power of buyers, and Threat of substitute products) constant at zero competitiveness of the Small and Medium Enterprises will be 1.054.

The findings presented also show that taking all other independent variables at zero, a unit increase in the rivalry among existing competitors would lead to a 0.684 increase in the scores of competitiveness of the Small and Medium Enterprises.Conversely, competition on services or features can allow industry competitors to support good margins.Firm's uses tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs when competitors sense the pressure or act on an opportunity to improve their position.This becomes a competitive struggle between companies in an industry to gain market share from each other, this is according to (Porter, 2005).

Also, a unit increase in the scores of threat of new market entrants would lead to a 0.700 increase in the scores of competitiveness of the Small and Medium Enterprises.According to the key informants, threat of new entrants are determined by barriers to entry which include economies of scale which include size and scope of operations required to achieve viable cost structure; product differentiation, switching costs and customer loyalty created by quality, reliability and brand image; capital requirements which involve size of cash and financial resources required to establish and run a business; cost disadvantages independent of scale as opposed to advantages held by existing competitors such as location, patents and experience; access to distribution channels which include means to reach customers; government policy such as licensing, subsidies or tax incentives; and expected retaliation from existing competitors which are determined by current rivalry, history of vigorous retaliation and strengths of incumbents

Further, the findings shows that a unit increases in the scores of bargaining power of buyers would lead to a 0.570 increase in the scores of competitiveness of the Small and Medium Enterprises.With regards to Bargaining Power of Buyers, buyer bargaining leverage, buyer information availability, availability of substitute products, buyer dependence on existing distribution channels and buyer price sensitivity all have a high impact and influence the competitive advantage of the Small and Medium Enterprises.

Finally, the study found that a unit increase in the scores of threat of substitute products would lead to a 0.763 desirability of competitive advantage of Small and Medium Enterprises.All firms within an industry compete with industries producing substitute's products and services. Substitutes limit the potential returns of an industry by placing a ceiling on the prices that firms in that industry can profitably charge.The products/services of different industries can satisfy the similar customer needs, so a customer chooses the products he/she prefers and this increases competition in the Industry.In emerging economies, for example, the surge in demand for wired telephone lines has been capped as many consumers have opted to make a mobile telephone their first and only phone line.

Overall; threat of substitute products had the greatest effect on the competitive advantage of Small and Medium Enterprises followed by, threat of new market entrants, rivalry among existing competitors while bargaining power of buyers while Legislation had the least effect to the competitive advantage of Small and Medium Enterprises.All the variables were significant ($p<0.05$).

CONCLUSION AND RECOMMENDATIONS

The study concluded that there is great significance of competitors in benchmarking; keeping the management on toes and increasing efficiency and effectiveness. The study concluded that the threat of new entrants applies to in the Small and Medium Enterprises due to the presence of various competing organizations performing similar roles and offering such products and services at lower rates. This study also concluded that the bargaining power of buyers in the Small and Medium Enterprises is critical in terms of understanding the firms' buyers and successfully meeting their demands as a way of retaining them and achieving high customer satisfaction for repeat sales. The study concludes that substitute product constrains the ability of firms in an industry to raise prices.

This study recommended that Small and Medium Enterprises should always consider how new technology advancement is going to improve on the products offered and their prices before making the strategic decision of adopting it for their operations. In response to the increasing number and strength of competitors this study recommends that the Small and Medium Enterprises should increase their product diversity and customize its products in a way that suits and retains the already existing customers as well as increase quality, efficiency and effectiveness in product delivery. Also, as a way of maintaining high quality services and good working environment, this study recommends that Small and Medium Enterprises should engage in innovation through technological development which will impact the quality of products sold through buyers and has a positive impact on return on assets, favorable/attractive product prices create value to the customers who purchase the organizations products delivering persistent profits.

The study finally recommends that since substitutes are posing challenges to the firms' products, the Small and Medium Enterprises should research and understand the growing health trend of its consumers and innovate appropriately, realize the world is becoming a global village and adapt by taking advantage of the growing middle class through dynamic product propositions.

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