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EFFECTS OF COMPETITIVE STRATEGIES ON THE COMPETITIVE ADVANTAGE OF AUDITING FIRMS IN NAIROBI COUNTY, KENYA

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Abstract

This study sought to evaluate the effect of competitive strategies on the competitive advantage of auditing firms in Nairobi County, Kenya. The specific objective of the study was to establish the effects of service quality strategy on the competitive advantage of auditing firms in Nairobi County, Kenya. A review of the relevant literature was undertaken. On the methodology the study utilized a descriptive research design. The target population comprised of 678 registered audit firms in Nairobi County. The study adopted the stratified sampling technique. From the possible 678 target population, stratified random sampling was employed to select a total of 136 sample population. A questionnaire was used to collect primary data which was analyzed using descriptive statistics. The study found that nature of services help reduce wastage which increases competitive advantage of the organization. The study recommends that audit firms should adopt strategies such as diversification of products to include consultancy & accountancy.

Key Words: service quality strategy, auditing firms in Nairobi County, Kenya

Introduction

Achieving competitive advantage is a major pre-occupation of the managers in many businesses today. Organizations globally now seek to actively differentiate themselves from their competitors in terms of quality of service, flexibility, customization, innovation and rapid response (Ghalayani & Noble, 1996). According to Ansoff & Mc Donnell (1990), major escalation of environment turbulence means a change from a familiar world of new technologies, new competitors, new consumer attitudes, new dimensions of social control and above all an unprecedented questioning of a firms role in society. Over the past two decades, quality has been heralded as the source of competitive advantage Quality has gone through an evolution process, from an operational level to a strategic level, and some scholars have given strong support for the view that quality must be adopted as a strategic goal in organizations (Adam, 1992).

Porter (1980) categorized quality as a primary basis for differentiation strategy. He contends that firms adopting this strategy will uniquely position their products based on several attributes leading to a premium price. He specifically suggests that quality creates a differentiation point, which separates, even insulates, a firm from competitive rivalry by creating customer loyalty as well as lowering price sensitivity. In this way, the firm will be protected from competitive forces that reduce profitability. Similarly, Philips et al. (1983) noted that among the many sources of differentiation, quality was the approach that most often characterizes a differentiation strategy. They also noted the conventional wisdom, which suggests an incompatibility between high quality products, and low cost for the reason that quality usually requires more expensive materials and processes, which is not supported under a cost leadership regime. This school of thought, however, does not totally negate the link between high quality and low cost. Rather, it suggests that high quality products will eventually result in lower costs after the firm attains benefits on economies of scale via higher market share (Philips et al., 1983).

A second line of argument supports the link between quality and low cost. Deming (1982), with his quality improvement chain concept, argued that organizations can enhance their competitiveness by improving quality. This will result in cost reduction through eliminating scrap and rework. The concept of quality costs developed by Crosby (1979), provides explanations on the link between quality performance and cost reduction. The idea of quality cost suggests that any defective products (i.e. poor quality) will incur costs, commonly labeled as failure costs, which include the costs of rework and scrap. In the light of the link between quality performance and quality costs, firms need to devote their efforts on controlling processes to minimise defects in their outputs, which will also reduce the failure costs. In turn, this reduction will result in lower production costs and overall operation costs (Millar 1999). This is because the improvement of quality performance will not only impact on one particular functional area (i.e. production) but also inter-functional areas within organizations (Mandal, 2000).

Several other studies have exemplified the link between quality performance and cost reduction. For example, Maani et al. (1994) showed that quality performance (in terms of scrap, rework, and customer complaints) not only has a favorable impact on the operational variables but that its impact will also be apparent at the business performance level The arguments for quality costs have been extended to the point where firms can achieve better financial performance by reducing failure costs rather than by improving sales (Harrington, 1987). This was evidenced in the 1980s when the lower price and higher quality of the Japanese products flooded global markets which had previously been

dominated by Western companies (Raisinghani et al., 2005) This causal link between quality and cost, therefore, is different from that held in a classical economics theory, as was noted earlier. Here, quality is considered as directly inverse to cost. This seems to be compatible with a leadership quality strategy that seeks the lowest possible unit cost in production. The chain of reactions starts with quality improvement, which results in cost reduction, which results in firms having the opportunity to offer high quality with low prices. In this way, firms will be rewarded with higher market share and a better competitive position in the market (Deming, 1982). In essence, this school of thought holds that there is no conflict between quality and cost as opposed the traditional view which suggests that higher quality means higher costs.

Aside from the opposing arguments outlined above, several scholars have suggested the unification of differentiation and cost leadership brought by quality. Belohlav (1993), for example, argued that attaining high quality performance allow firms to pursue not only a differentiation strategy, but also a leadership quality strategy. He further suggested that quality bridges the two different perspectives of strategy into one dimension called the value dimension.

From a theoretical point of view, this argument allows the compatibility between cost leadership and differentiation strategies, which has been extensively debated in strategic management literature (Hill, 1988). Moreover, it is consistent with the demand for pursuing cumulative dimensions of performance (Noble, 1995). Specifically, Reed et al. (1996) show how quality simultaneously encompasses both differentiation and cost leadership. They argue that by focusing on customer needs, quality is concerned with providing better products that satisfy customers' needs. This is associated with differentiation strategy. At the same time, by focusing on internal processes, quality also leads organizations to reduce cost as a result of the elimination of defects and waste. This makes it compatible to leadership quality strategy. The implication of this notion is that competing on quality will provide firms with double advantages by providing customers with both differentiated products and lower costs (Ho et al., 2005).

Methodology

Descriptive research design and survey design were employed. This is because they were best suited as excellent vehicle for generalization. According to Mugenda and Mugenda (2003) a descriptive research determines and reports the way things are and attempts to describe things as possible behavior, attitudes, values and characteristics. Schindler and Cooper (2003) noted that descriptive studies are structured with clearly stated investigative questions. The population of interest comprised of audit firms in Nairobi. According to the Institute of Certified Public Accountants of Kenya records, (2015), there are 678 registered audit firms located in Nairobi. This study adopted the stratified sampling technique. From the possible 678 target population, stratified random sampling was employed to select a total of 136 sample population. This was 20% of the total population. Mugenda and Mugenda (2003) states that in stratified sampling where population within each strata is known, a sample of 10-30% is adequate representation for data collection. The study used questionnaires as the instrument of data collection. The study pre-tested the instrument to enhance its validity and reliability. In this research, 6 firms were chosen. The data collected was coded, quantified and analyzed quantitatively. Quantitative data was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The data was then presented in the form of tables, graphs and pie charts .This provided for an easier analysis and interpretation of the data inputted. Further the

data was regressed to obtain t - values, p-values, specific coefficients and intercepts, standard errors among other values at given significance levels. These values were used for further analysis. The inferential statistics constituted of multivariate regression analysis, which was used to determine the relationship between the dependent and independent variables.

A total of one twenty one (136) questionnaires had been distributed to the respondents, out of which 120 were completed and returned. This gave a response rate of 88.2%.

Results and Discussion

From the findings 48% of the respondents indicated that their firm offers auditing services, 42% indicated accounting services, 8% indicated taxation services, while 2% indicated management consulting services. This depicts that majority of the respondents indicated that their firm offers auditing services. This agrees with a study by Messier (2000) who states that audit forms offers audit services such as Financial Audit Services, Compliance Audit, Operational Audit, and Forensic Audit. In addition audit Services consist of financial, operational, and information technology audits in accordance with approved plans and its established policies and procedures. Further, Audit Service complies with the Code of Ethics and the Standards for the Professional Practice of Internal Auditing.

From the findings respondents agreed that nature of services help reduce wastage which increases competitive advantage of the organization (mean=4.65), followed by type and the conditions at which the service is provided help reduce losses which increases competitive advantage (mean=4.63), quality of services increases the competitive advantage of the organization (mean=4.61), and magnitude of the service enhances competitive advantage (mean=4.58). This implies that nature of services help reduce wastage which increases competitive advantage of the organization. This is in agreement with a study by Ho et al., (2005), who stated that nature and quality of services leads organizations to reduce cost as a result of the elimination of defects and waste. The implication of this notion is that competing on quality will provide firms with double advantages by providing customers with both differentiated products and lower costs

From the findings 50% of the respondents indicated that accounting services face the stiffest competition, 35% indicated auditing, 10% indicated taxation services, while 5% indicated management consulting. This depicts that majority of the respondents indicated accounting services face the stiffest competition. This is contrary to the study by Deming, (1982), who stated that chain of reactions starts with quality improvement which results in cost reduction, which results in firms having the opportunity to offer high quality with low prices. In this way, firms will be rewarded with higher market share and a better competitive position in the market.

Table 1 .Coefficient of Determination

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	1.127	0.2235		5.132	0.000
	Service quality	0.652	0.1032	0.1032	7.287	.000

The significance value is 0.000 which is less than 0.05 thus the model is statistically significance in predicting how the factor service quality strategy influence competitive advantage of auditing firms in Nairobi County.

Conclusion

The study found that majority of the respondents indicated that their firm offers auditing services. Also the study found that nature of services help reduce wastage which increases competitive advantage of the organization. Additionally the study found that majority of the respondents indicated accounting services face the stiffest competition.

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