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EFFECT OF PRODUCT DIFFERENTIATION PRACTICE ON PERFORMANCE OF SUGAR COMPANIES IN WESTERN KENYA

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ABSTRACT

Product Differentiation as a functional element of strategic adaptation is very important in the competitive market world. Most of the organizations' performances rely on strategic practices in order to achieve planned goals. Western Kenya is anchored on agricultural produce that enhances the development and growth of agricultural oriented companies. The existence of sugar cane has lead to the availability of sugar companies that strain up and town on global industrial market for survival. The management of any current organization strive to involve on strategic adaptation practices with an essence of an improved performance; hence the study's objective was to examine the effect of Product Differentiation Practices on performance of Sugar Companies in Western Kenya. This study employed descriptive survey design. The targeted population was based on six sugar companies in Western Kenya. The study applied purposive sampling Technique. The Questionnaire was used as an instrument of primary data collection. The study applied Descriptive statistics to determine the mean, standard deviations and frequencies of the data under study. Inferential statistics was applied to determine the correlation within the variables. The descriptive and inferential statistics were analyzed by use of Statistical Package for Social Sciences (SPSS) software. The regression model was determined and analyzed by use of the similar software. The overall results provided statistical evidence of a positive correlation of Product Differentiation and performance of thesugar companies in Western Kenya. The study recommended for adaptation of Product Differentiation practice since it leads to the improvement of performance. The study recommended for further research on the variables using other methods and companies.

Key words; *Product Differentiation, Performance*

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INTRODUCTION

Adaptation is the answer of companies to environmental challenges (Chang, Memili, Chrisman & Welsh, 2011). Companies basically either recognize or do not recognize the environmental changes. In case they recognize them, they either find an appropriate adaptation form, configuration to them or do not. Moreover, some companies can influence their operating environment actively (Mohsenzadeh & Madian, 2016). According to Jeff (2016), adaptation is a valuable determinant of companies' performance. In fact, in his study of fortune 500 companies, only 12% of the original companies remained in the industry from 1955 to 2014, while 88% fell from grace due to failure to adapt (Jeff, 2016). Product Differentiation as a functional element of strategic adaptation is very important in the competitive market world. Most of the organizations' performances rely on strategic practices in order to achieve planned goals.

From a global perspective, firms adopt varied strategies to survive the ever-changing environment they operate in (Beck *et al*, 2010). Adaptive strategies refer to internal and external strategies adopted by companies in response to changing external environment. For instance, looking at the case of Toyota Motor Corporation, a global manufacturer and seller of auto products, adaptation strategies have helped it survive in more than 170 countries with different environments (Hong, 2007).Strategic adaptation remains one of the most pursued processes in the business, (Scanty, 2015). Research exists on the actual value of strategic adaptation on performance (Michael, 2016). When companies respond to uncertainties in the external environment by aligning their systems to external demands, they are likely to post higher profits and stay in business for long (Miller & Russell, 2006). In an extreme competition where competitors use superior strategic approaches, strategic adaptation as the most suitable response improves the firm's profitability. Kitching, Blackburn, Smallbone and Dixon (2009), with a study on firms in the United Kingdom, established that strategic adaptation under challenging times resulted in improved performance. A study by Ndlangamandla (2016) in Swaziland revealed that sugar companies in the country were recording high performance relative to their competitors due to their effectiveness in adapting to the sugar market. A study by Imbambi (2017) on sugar companies in western Kenya also established that technological and material capabilities as part of the companies' strategies resulted in high performance.

The sugar production sector has been very competitive globally, with sugar companies doing their best to keep pace with the environment. The World Bank sugar production report (2018) ranked Brazil at the top as its sugar companies produced 37.3 million metric tons of sugar in the 2017/2018 period. The production accounted for 52% of the world's sugar production globally, while African companies had only 5% of world production. Out of the total sugar production in Africa, 30% came from East Africa. Locally, the sugar industry has far-reaching implications on Kenya's Economy. Failure to adapt strategically is rendering the local companies uncompetitive. Kenya National Bureau of statistics economic survey report (2018) stated local sugar companies in Kenya showed Muhoroni Sugar Company closed its doors, dealing a blow to more than 23,000 farmers relying on it. Nzoia Sugar Company operates on diseconomies of scale while Mumias Sugar Company has stopped crushing and now distilling ethanol on a low scale and more so, been placed under receivership with suspension from Nairobi security exchange for trading. From the researcher's view, strategic adaptation is inevitable for these companies to stay competitive because they are operating in an open system whose predictions are uncertain.

Statement of the Problem

In the study by Carpenter and Moore (2006) on performance of organizations, organizations employ some of the differentiation strategies to foster sales performance evolving around interplay

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of various elements of the retail mix; hence, includes: offering quality products, wide selection, assortment, strategic positioning, after-sales-service, quality service, convenient location, parking space, attractive design and layout, conducive atmosphere, sales incentives, convenient operating hours, own branding/value addition and a one-stop-shop. Economically valuable bases of product differentiation can enable a firm to increase its revenues, neutralize threats and exploit opportunities. In the study by Baines and Langfield-Smith, (2003) on competitiveness, when emphasis is placed on activities such as research and development aimed at identifying and satisfying customer needs differentiation achieves the desired objective; hence, the effect of differentiating a product may not necessarily be in terms of money or financial terms but also certain benefits that enhance the value creation process of the firm. As globalization leads to more intense competition among organizations, with increase in customer demands, these organizations tend to seek competitive advantage by producing products with more valued features, such as product quality, product flexibility or reliable delivery; hence, a differentiation strategy would provide greater scope for these organizations to produce products with more value, desirable features as a means of coping with such demands.

Haasan (2005) researched on strategies employed by the sugar manufacturing firms in Kenya. He was able to establish that sugar firms utilized strategies to gain market positions. According to him, sugar firms mainly utilized leadership and differentiation strategies with great emphasis on customer service, distribution and branding. Jowi (2006) focused on Mumias sugar company Ltd and researched on strategies applied by this company. The objectives of the study were to determine the strategies applied and establish the factors that influenced the choice of strategy. The study showed that Mumias Sugar Company Ltd had put in place several initiatives that focused on cost reduction thus indicating that low-cost production was the strategy of choice. Jowi (2010) looked at strategic responses to the environment by South Nyanza Sugar Company Limited and recommended that the government needed to effect proper legislation to curb cheap imports of sugar and thus proper growth of local sugar industries. Lutta (2010) researched on the challenges of implementing a strategic plan in Mumias Sugar Company Limited and noted that the company was facing illiquidity problems. Most of the scholars among them; Jowi (2010) embraced the input strategies for sugar companies, especially provision of capital but never stressed on the product differentiation as an input that is very relevant in the current times of competition; hence, giving rise a researchable gap to ascertain whether Product Differentiation has an impact in Sugar Companies in Western Kenya.

Research Objective

The objective of the study was to find out whether product differentiation had an effect on performance of sugar companies in western Kenya. The study was guided by the following research hypothesis;

- **H_{01}**: Product differentiation has no significant influence on the performance of companies in western Kenya.

LITERATURE REVIEW

Resource-Based Theory

The resource-based theory is founded on the works of Penrose (1959), who stated that organizations have resources that can enable them to achieve competitive advantage when effectively employed in productive opportunities. The internal resources, combined with the development of ideas, knowledge of management and experience, facilitate the introduction of innovations within the firm - an incentive to expand and a source of competitive advantage. Barney (1991) builds on the works of Penrose (1959) by stating that organizations have three main types of resources.

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The first category is physical capital which comprises technology, equipment, plant and property. The second is human capital consisting of knowledge, experience and intelligence of the workforce and the final category is organizational capital resources comprising of policies, control systems and intra-organizational relationships. The resources should be rare, valuable, imperfectly imitable and non-substitutable for the organization to gain maximally improved performance and sustainable competitive advantage.

Dynamic Capabilities Theory

The Dynamic capabilities theory is founded on Schumpeter's innovation-based competition where creative destruction of existing resources and planned recombination into new processes results in competitive advantage (Pavlou, 2011). According to Shuen (1997), the dynamic capabilities theory was developed as a reaction against the resource-based view theory's inability to address the development and redevelopment of resources in rapidly changing environments. The dynamic capabilities theory considers the impact of external environments changing significantly in the current and future periods in defining how companies should organize internal resources and operations to gain competitive advantages. According to Winter (2003), the dynamic capabilities theory addresses two types of capabilities: ordinary capabilities that help firms operate in their lines of business effectively and efficiently and dynamic capabilities that help firms create a new process in changing environments. For the above to be achieved, organizations need to recombine, renew, replicate, redeploy, retrench and retire resources (Peteraf, 2003).

The Capability-Based View

Grant (1991) argued that capabilities are the source of performance while resources are the source of capabilities. Shoemaker (1993) adopted a similar position and suggested that resources do not contribute to sustained performance for a firm, but its capabilities do. Hansen (2005), as well as Long and Vickers-Koch (1995), supported the importance of capabilities and suggest that a sugar company can gain performance from its ability to apply its capabilities to perform important activities within the sugar industry. Shoemaker (1993,) defined capabilities in contrast to resources, as a firm's capacity to deploy resources, usually in combination using organizational processes, and affect the desired end. It is relevant to structural alignment through alignment of employee roles, departmental and team alignment. They are information-based, tangible or intangible processes that are firm-specific and developed over time through complex interactions among the firm's resources.

Review of the variables

Chamberlin (1993) defined product differentiation as the process of creating a sense of uniqueness and value in an organization's products. (Baines, 2003) defined product differentiation as creating different products with more value than existing products in the industry. Therefore, product differentiation is a strategy for establishing a unique brand in the industry and stamping a footprint in the market. It can be carried out by acquiring unique resources, developing staff to work in a given way, encouraging brand differentiation and uniqueness, and offering unique customer service. Porter (1985) outlines three generic strategies that organizations can use to gain product difference: Cost leadership strategy; where the organization seeks to be the low-cost producer in comparison to its competitors, differentiation strategy; where the desire of the organization is to avail to the consumer a positive non–price attribute that distinguishes it as superior to the competitors and focus strategy; where organizations direct their attention to narrow product lines, buyer segments or geographical markets using either cost or differentiation approaches to gain a competitive advantage. These cost and differentiation advantages are viewed as positional advantages as they position an organization in the industry as a cost leader or champion in differentiation (Hayes, 2008). This view is in line with the resource-view perspective which emphasizes that an organization utilizes its resources and capabilities to create a competitive advantage which results in superior value being created. It holds that for an organization to develop a competitive advantage, it must possess resources and capabilities that are superior to the competition.

Product differentiation reduces competition which increases performance for organizations in many dimensions. Regarding Likert scale performance, customers tend to identify with established brands due to product differentiation (Schemmener, 2008). This helps the firm to increase its Likert scale was relative to competitors. Product differentiation also helps to define organizational processes clearly and to improve efficiencies of processes. Further, product differentiation helps align the organization strategically with changing the external environment and reap the benefits of economies of scale. This may result in cost savings and increased profitability. However, the differentiation strategy should be carried out with moderation as being too different creates legitimacy issues that negatively affect performance. High levels of differentiation only target select groups or situations and may introduce constraints on the organization's Likert scale (Shafiwu, 2013). Differentiation strategies are costly as they consume time in planning, adopt the manufacturing process for the identified product, and maintain brand differentiation through unique marketing practices. Kotler (2002) also noted that product differentiation benefits are limited as disadvantages usually offset them.

Empirical studies on the relationship between product differentiations and the performance of organizations are scanty. (Haarla, 2003) investigated the impact of product differentiation on competitive advantage. Study findings established that product differentiation served a supporting and essential role to cost leadership in attaining desired competitive advantages. Chang *et al*. (2011) and Banker, Mashruwala and Tripathy (2014); focused their studies on developing countries and identified the existence of a positive relationship. In Ghana, Shafiwu and Mohammed (2013) found that the petroleum industry in their country had not differentiated its products so much despite the availability of benefits to be reaped. They had sought to find the relationship between differentiation and profitability in the petroleum industry by employing a co-relational study design. (Ibidunni, 2013) established a significant positive relationship between product differentiation and sales growth of companies in Nigeria. These scholars had focused on product differentiation as a competitive advantage resource and organizational performance of Unilever Nigeria. Odhiambo (2018), with a study on product differentiation's effect on market share, a case study of Kenya's oil industry illustrated that high differentiation strategies influence customers' preferences, which improved organization performance.

Challenges hindering the successful implementation of product differentiation include the lack of appropriate technology to carry out the processes, lack of knowledge and unfavorable government regulations (Shafiwu *et al*., 2013). Changing consumer preference also implies that the organization has to continually define unique products to sustain loyalty, which may be very costly. Findings that disadvantage sometimes outweighs benefits in product differentiation by Kotler (2002) confirm the fear by most companies to invest in product differentiation strategies fully. Changing government regulations such as bans on some products also means no profits and low overall performance.

Performance in organizations is diverse, ranging from financial performance, market performance, organization performance, operational performance and even supply chain performance. According to Slack, Chambers and Johnstone (2007), performance is best assessed by comparing specific processes' output by the objectives and inputs set. This study focused on one dimension of performance, that is, performance. (Lall, 2001) defined a firm's competitiveness as its ability to do better than competitors regarding productivity, market share, sales or profitability, or a combination of the measures. (Cerrato & Depperu, 2011) defined organization performance as the level with which an organization achieves its superior position and differentiation objectives relative to its competitors in the industry. Neslihan (2012) defined competitiveness in the industry as the industry's ability to achieve the highest efficiencies and meet challenges posed by rivals. Therefore, the standard definition of organization performance looks at achieving high profitability, customer attraction and retention, Likert scale and operational efficiencies objectives by a firm relative to its competitors.

Product differentiation

- Quality specification
- Production of a variety of products
- Brand identification

→

Organization Performance

- Sales volumes
- Cost leadership price
- Customer base
- Customer retention

Independent Variables **Dependent variable**

Figure 1: Conceptual Framework

Source: Author

METHODOLOGY

The study adopted a descriptive survey to fully explain the variables under study, which included product differentiation and performance. The target populations of the study were all sugar companies in western Kenya. There were six sugar companies in western Kenya: West Kenya Company, Nzoia Sugar Company, Chemelil, Mumias sugar company, South Nyanza and Muhoroni this is according to publish, done by Kenya Revenue Authority (KRA, 2020). The study adopted a stratified sampling technique to select six sugar companies which were almost ninety-nine per cent of the number of companies in western Kenya. This was so because most of the sugar companies within western Kenya have adopted the same techniques and mechanisms of strategic adaptation. The sample size of thirty six was representative and substantial to satisfy the objective of this study. According to a book on quantitative and qualitative approaches by Mugenda (2008), it recommended sample size of at least ten per cent of the targeted companies. The study relied on both primary and secondary data collection instruments. Primary data was collected using structured questionnaire that were prepared based on the study's objectives and the conceptual framework. Descriptive statistics was used to analyze data on respondents' general information, on Product Differentiation of sugar companies and performance of the firms in western Kenya. Inferential statistics was used to help in determining the relationship amongst variables in the study. Pearson Correlation analysis was used to determine the relationship between individual variables in the objectives. The study employed Excel and Statistical Package for Social Sciences (SPSS) software to analyze the data information.

The regression model was; $Y = \alpha + \beta_1 X_1 + \varepsilon$

Y= Performance

X_1 = Product differentiation

ε = Residual (error) term.

Where β_0 is the constant

β_1, is a coefficient of product differentiation

FINDINGS AND DISCUSSIONS

Response rate was 75%, which was considered adequate and sufficient for analysis.

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Descriptive Statistics;

Influence of product differentiation on performance for sugar companies in western Kenya

The objective of the research study was to find out the effect of product differentiation on the performance of sugar companies in Western Kenya. For the purpose of finding out how well each product differentiation practice in reference to strategic adaptation is implemented and perceived, respondents were to respond statements on a Likert scale of 1 to 5 where, 1 meant that the respondents No extent, 2-small extent, 3-Moderate extent 4 they to a large extent Agreed and 5 meant to a very large extent**.** For purpose of interpretation, a mean score of 0≤1.5 means that the respondents strongly disagreed on the extent of product differentiation, between 1.50 ≤ 2.50 means they disagreed it's to a small extent, 2.50 ≤ 3.50 they were respondents feel there is moderate extent of product differentiation, 3.50 ≤ 4.50 means it's to large extent and above 4.50 means the respondents strongly agreed that to a very large extent there is product differentiation within the organization.

Table 1: Product Differentiation and Performance

Product Differentiation	**Mean**	**Std. Dev**
The company products have strong brand identification.	3.50	0.81
Our firm develops new products with components and materials that meet current need.	3.78	1.01
We have introduced new product features in the last one year	3.01	1.04
Our organization makes effort to differentiate its products from those of its competitors.	3.67	0.99
Average	**3.51**	**0.96**

Product differentiation has helped sugar companies to improve their performance in the sugar sector with a standard deviation 0.96 and a mean 3.51. This implies a slightly positive correlation between product differentiation and performance in the sugar companies hence need to strategically focus on product differentiation to spearhead strategic adaptation hence performance.

In a dynamic environment, creation of technological capacity requires not only new knowledge but also innovative ideas (Teece, 2014). Product differentiation allows the alteration of the firm's production function and processes and gives the firm a chance to build its distinctive technological competence. At the firm level, product differentiation is viewed as the application of new ideas that lead to development of new products (Rubera & Kirca, 2012; Therrien, Doloreux & Chamberin, 2011).

Performance of Sugar Companies

The objective of the research study was equally to find out the extent of performance of sugar companies in Western Kenya. For the purpose of showing the performance of sugar companies in Western Kenya as influenced by strategic adaptation. To measure performance, respondents were to respond statements on a Likert scale of 1 to 5 where, 1 meant that the respondents No extent, 2-small extent, 3-Moderate extent 4 they to a large extent Agreed and 5 meant to a very large extent**.** For purpose of interpretation, a mean score of 0≤1.5 means that the respondents strongly disagreed on the extent of performance, between 1.50 ≤ 2.50 means they disagreed it's to a small extent, 2.50 ≤ 3.50 the respondents feel there is moderate extent of performance, 3.50 ≤ 4.50 means it's to large extent and above 4.50 means the respondents strongly agreed that to a very large extent there is organizational performance.

Table 2: Performance of Sugar Companies

Performance	Mean	Std. Dev.
Our organization's sales have increased in the local sugar sector.	3.23	1.22
Our existing products have been improved in the last one year.	3.32	1.14
Our selling price is the best for the sugar industry in Kenya.	3.67	1.25
Our organization determines the purchase price of raw materials.	3.50	1.16
We have increased our customer's base over the past one year.	3.84	1.04
Average	**3.45**	**1.10**

Need for performance has helped sugar companies to improve their performance in the sugar sector with a standard deviation 1.10 and a mean 3.45. This implies a slightly positive correlation between strategic adaptation and performance in the sugar companies hence need to focus on spearhead strategic adaptation hence performance. Ketchen and Palmer (1999) argue that poorly performing companies will always apply threat rigidity by bringing changes in their products and services based on their historical performance rather than innovations and marketing adjustments as applied by highly performing companies. They further elaborate that low performing companies often focus on making adjustments in the internal environment like lowering product costs to gain fit to the environment while high performers try new product and market innovations to match the competitive environment. More often, strategic responses determine the survival, competitive advantage and performance of organizations in the business environment.

Strategic responses are characterized by major market adjustments, innovations, technological adoption and strategy realignment to gain a fit to dynamic business environments. Companies with outstanding performance align their strategies to delivery performance, flexibility, and quality. Often, successful companies find themselves in dynamic and competitively hostile environments thus adopting strategies that enable differentiation based on operations capabilities. Pindiche (2013) clearly states that microenvironment level affects the customers/ consumers, suppliers, distributors and competitors who are the main market players. Consumers majorly are essential in the normality of the market by purely determining the direction of supply and demand curves. Suppliers and distributors are organizations and individuals that provide organizational inputs while competitors are similar firms in the same industry seeking to meet the same customer needs. Organizations need to project and respond strategically to changes in the microenvironment to outdo those of their competitors.

Inferential Results;

Product differentiation and Performance

The objective was to examine the influence of product differentiation on the performance of sugar companies in western Kenya. From the findings the correlation coefficient (R) is 0.587 which is a positive, showing a significant relationship between product differentiation and performance and the R-Square value of 0.345 shows that the model accounts for 34.5% of the variation or change in the performance of sugar companies in Western Kenya.

Table 3: Model summary for Product differentiation and Performance

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	.587	.345	.076	.48167	.000	.005	1	33	.907

a. Predictors: (Constant), X1

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The results of the ANOVA test showed a P-value of 0.000 is less than the set level of significance of 0.05 for a normally distributed data as shown in Table 4. The results further revealed that the model had an F-ratio of 17.567 which was significant at 5% level of significance. The findings showed that the model is statistically significant in explaining the relationship between product differentiation and the performance of Sugar Companies in Western Kenya hence product differentiation influences the performance of sugar companies in Western Kenya.

Table 4: ANOVA for Product differentiation and Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.153	1	3.153	17.567	.0.000[b]
	Residual	8.617	35	.236		
	Total	11.760	35			

a. Predictors: (Constant), X1

b. Dependent Variable: Y

Table 4 showed the coefficients of the influence of product differentiation on performance of sugar companies in Western Kenya. The Beta coefficients was .498 at a p-value of 0.000<0.05 indicate the extent to which sugar companies performance changes due to change in product differentiation by 51.5%.

Table 5: Coefficients for Product differentiation and Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	2.714	0.239		16.515	.001
X1	0.498	0.070	0.515	9.907	0.000

a. Dependent Variable: Y

The equation;

$Y= \beta_0+\beta_1X_1+\varepsilon$, holding all other factors constant, this becomes,

$Y_0=2.714+.498X_4$

The positive Beta coefficients imply that a change in the product differentiation results in increased performance in sugar companies in Western Kenya by 49.8%. The t-value of 9.907 indicates greater evidence against null hypothesis hence confidence in rejecting the null hypothesis.

Results of Hypothesis

The testing of this hypothesis relates to the research objective:

Null Hypothesis (H01): Product differentiation has no significant influence on the performance of companies in western Kenya.

Alt. Hypothesis (Ha1): Product differentiation has a significant influence on the performance of companies in western Kenya.

Model summary results indicate that product orientation has significant influence on performance of sugar companies in Western Kenya ($\beta_1 = 0.902$ at $p< 0.05$). Other factors remaining constant, product orientation, explains 90.2% of changes in performance of sugar companies in Western Kenya. The positive beta coefficient implies that a unit change in use of product differentiation results in a rise in firm performance by 0.902 units. As such the null hypothesis was rejected.

In agreement with Teece (2014) noted that those firms with strong dynamic capabilities tended to exhibit strong technological agility, are able to create new technologies, differentiate and maintain superior processes and modify their structures and business models in a way that ensures they stay ahead of the competition. On the study of organizational Adaptation Strategies and the Performance of Retail Supermarkets in Nairobi City County, Kenya by Gathenya *et al.,* (2020) recommended that for a firm to achieve higher performance than its competitors, it must be aligned to both the internal and external environment in which it operates.

CONCLUSIONS AND RECOMMENDATIONS

The objective was to examine product differentiation on the performance of sugar companies in Western Kenya. This study found statistical evidence that attention to product differentiation by the sugar companies in Western Kenya positively and significantly influences the performance.

Product differentiation was also found to impact positively on performance in the sugar companies in Western Kenya. This can be attributed to the company having strong branding identification, developing new products with components and materials that meet current needs, and unique features on products hence increased performance.

The findings from this study revealed that there is a positive and significant influence of product differentiation on the performance of Sugar Companies in Western Kenya. This implies that for the Sugar Companies in Western Kenya to perform better they need to do the following; have a stronger branding identification, differentiate products from those of its competitors, update their technology regularly, provide new and better knowledge to employee and give re designed working tools, and equipment to their employees. These firms should also conduct researches regularly to update their production quality and be responsive to the changes in technology. They should be able to match their technological requirements to the changes in the environment.

Areas for Further Research

The main focus of this study was on the Sugar Companies in Western Kenya. There is need to carry out a similar study in other sectors of the economy.

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