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ASSOCIATION OF COST LEADERSHIP STRATEGY WITH PERFORMANCE OF RADIO BROADCASTING FIRMS BASED IN KISUMU COUNTY, KENYA

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Abstract: **Marketing strategies literature show that cost leadership strategies are important drivers of performance and competitive advantage among firms. However, there is no literature about radio broadcasting firms, the association of cost leadership strategy with performance of radio broadcasting firms. The purpose of this study was to determine the association between cost leadership strategy and performance of the radio broadcasting firms based in Kisumu County, Kenya. The study employed a correlational research design and the population of study constituted a total of 35 top managers and middle level managers from the three radio firms operating in Kisumu County. The findings were that the association between cost leadership and performance were positive and significant, that is, ($r = 0.475$, $p = 0.008$, $n= 30$) meaning that use of cost leadership strategies influences performance positively. The study concludes that use of cost leadership strategies associates with performance positively. Recommendations of the study are that management of radio broadcasting firms should intensify use of cost leadership. The results of this study will be important to the radio broadcasting firms by helping them adopt marketing strategies that would enhance their performance. To the industry policy makers, the study will help to identify the appropriate marketing strategies for survival in the competitive business world.**

Keywords: **Cost Leadership Strategy, Performance, Radio Broadcasting Firms, Kisumu County, Kenya, Marketing Strategies.**

1. BACKGROUND OF THE STUDY

In the contemporary market place, Pretorius (2008) observe that intense competitive forces have exerted pressure on firms to innovate ways of enhancing their performance and competitive advantage. Consequently, businesses operating in a competitive market have recognized the need of enhancing their competitive advantage (Parnell, 2006). Porter’s generic marketing strategies, which highlights cost leadership, differentiation and focus as the three basic choices for firms, has dominated corporate competitive strategy for many years (Pretorius, 2008). According to this model, a company can choose how it wants to compete, based on the match between its type of competitive advantage and the market target pursued, as the key determinants of choice (*Akan et al.*, 2006). Porter’s generic marketing strategies remain one of the most notable in the strategic management literature (Parnell, 2006). A business can maximize performance either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market.

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According to Porter (1980), there are three marketing strategies that business firms can adopt to deal with their competitors namely: cost leadership, differentiation and focus strategies. Cost leadership strategy is where firms achieve lower cost than their rivals and thus they able to compete across a broad range of segments. According to Hoskisson et.al (2004) cost leadership is described as striving to be the overall low cost provider of a product or service that appeal to a wide range of customers. The cost leadership strategy is an integrated set of actions designed to produce or deliver goods with features that are acceptable to customers at the lowest cost, relative to that of competitors. The low cost leaders aim to have cost advantages while serving a broad market segment of customers. Firms that operate in markets that are characterized by buyers who are price sensitive find this low cost strategy very useful and powerful strategy that they can apply to gain more customers. The aim of this strategy is to open up a sustainable cost advantage over competitors and the firms lower cost of operation edge as a basis for either underpricing their goods and services and in turn gaining market share at the expense of competitors or the firm earn a higher profit margin by selling their products at the prevailing market prices. Firms can acquire cost advantage by improving their process efficiency, accessing low cost raw materials and inputs, making optimal out sourcing, making vertical integration decisions and cutting down overall costs of operation and avoiding some costs altogether (Hoskisson et.al, 2004) According to Porter (1998) once low cost has been achieved, the position provides high profit margins which can be re-invested in new equipment, modern facilities and technology to maintain the cost leadership.

Empirical evidence (Gakumo, 2006; Njoroge, 2006; Gitonga, 2003; Kariuki, 2006; Chepkwony, 2008 and Mbugua, 2006) show that cost leadership is an important aspect of enhancing firms' performance and competitive advantage. Gakumo (2006) use purposive sampling to investigate the application of cost leadership strategy among commercial banks in Kenya and find that most commercial banks based their cost leadership strategy on high level of capital investment and streamlined organizational structure. However, only commercial banks are studied and generic marketing strategies are not linked to revenue levels of these commercial banks and did not cover radio broadcasting firms in Kenya. On the contrary, Njoroge (2006) investigates competitive strategies adopted by liquefied petroleum gas marketers in Kenya and find that cost leadership strategy boosted revenue base. However, only gas marketers are studied and the extent of adoption of generic marketing strategies was studied. The study fails to link these strategies to performance of gas marketers in Kenya and did not cover radio broadcasting firms in Kenya. In addition, the study used exploratory research design. Moreover, Gitonga (2003) studied the application of Porters generic strategies framework in hospitality industry and find that cost leadership is one of the strategies applied by the hospitality establishments in Nairobi, Kenya. However, the study used exploratory design, purposive sampling, covered firms in hospitality industry and fails to interrogate the association between generic marketing strategies and performance of firms in the media industry. Similarly, Kariuki (2006) studied marketing strategies applied by private middle level colleges in Nairobi using descriptive research design and found that the preference of cost leadership strategy was not much, with 72% of the respondents in the hotel industry not preferring to use the strategy. However, the study was done in the education sector, testing the extent of use of marketing generic strategies among the firms in the sample. It fails to link application of cost leadership strategy with performance of firms in the media industry.

In addition, Chepkwony (2008) investigated the marketing strategies adopted by micro and small entrepreneurs in Eldoret using descriptive research design and found that cost leadership strategy was neutral to the quality of the product. However, the study did not check the association of cost leadership strategy with revenue levels and did not focus on radio broadcasting firms in Kisumu County.On the same vein, Mbugua (2006) explored competitive strategies adopted by mainstream daily print media firms in Kenya and found that organizations following the cost leadership strategy had manufacturing and material management at the centre of attention. However, the study did not check the association of cost leadership strategy and revenue levels and did not focus on radio broadcasting firms in Kisumu County.

Reviewed literatures show that cost leadership is an important aspect of enhancing firms performance and competitive advantage. Prior researches use convenient sampling methods and exploratory or case study research designs and descriptive statistics; study firms in the sugar, hospitality and education sectors. They employ primary data based on cross-sectional study units, but fail to study radio broadcasting firms using descriptive research design. Therefore, no researches relate cost leadership strategy to performance of radio broadcasting firms in Kisumu County. Given importance of cost leadership strategy in the media industry, the association of cost leadership strategy with performance of radio broadcasting firms is unknown.

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The media industry has undergone significant structural change globally, growing to become a pervasive and increasingly influential force in society (Myers, 2008). One of the key differences in today's media companies is the wide variety of media they comprise. Today's media giants are likely to be involved in almost all aspects of the media: publishing, radio, television, film, music, the Internet, and more. A media company can be vertically integrated, referring to a case of owning one type of media product; or horizontally integrated where it owns many different types of media products, such as broadcast and cable television, film, radio, and the Internet(Noganta, 2003). Radio industry is a subsector of the media industry. There are three important elements that form the theme of the discussion about the radio industry anywhere in the world namely the type of radio station, the funding model, and the target market (Noganta, 2003). The type of radio station refers to whether the station is a state broadcaster, public broadcaster, commercial, or non-commercial radio station (Myers, 2008). A state broadcaster is fully funded by the government and is mandated to completely pursue the interests of the government. While a Public service broadcasters on the other hand try to merge two opposing paradigms (Myers, 2008). Commercial radio stations depend entirely on revenue that they generate. Unlike a state and public broadcaster, a commercial radio station has to pay taxes in addition to its programming costs. This requires robust initiatives from marketing to attract more listeners and advertisers to maximize revenue in order to support programming and other obligations (Noganta, 2003). Commercial radio stations use a market-oriented approach which according to Fourie (2003), is based on the belief that the market is the only "democratic" regulatory mechanism while non-commercial radio stations still have to create some form of revenue to meet its programming obligations. The task of marketing may be to attract more donors to contribute towards the cost of running the station. The profit that is generated in excess of costs is referred to as "surplus" instead of profit and is used for growth and continued existence (Etzel, Walker & Stanton, 2004). The target market of the radio station bears on marketing because it is the responsibility of marketing to monitor this market and subsequently create appropriate communication initiatives to inform the target market about anything concerning the radio station. Marketing also has to inform the management of the radio station about any changes in the target market that may have a bearing on the strategic thrusts of the station so that strategies are aligned accordingly.

2. LITERATURE REVIEW

Association between Cost Leadership Strategy and Performance of the Radio Broadcasting Firms:

Gakumo (2006) use purposive sampling to investigate the application of cost leadership strategy among commercial banks in Kenya and find that most commercial banks based their cost leadership strategy on high level of capital investment and streamlined organizational structure. The process engineering, skills and volume sale techniques were the least emphasized aspects of the cost leadership strategy applied by the commercial banks. However, only commercial banks are studied and generic marketing strategies are not linked to revenue levels of these commercial banks and did not cover radio broadcasting firms in Kenya.

Another study by Njoroge (2006) on competitive strategies adopted by liquefied petroleum gas marketers in Kenya found that cost leadership strategy notably keeping lower overheads than competitors was more and this practice translated to offering products at lower prices than the competitors and hence boosting the revenue base. However, only gas marketers are studied and the extent of adoption of generic marketing strategies was studied. The study fails to link these strategies to performance of gas marketers in Kenya and did not cover radio broadcasting firms in Kenya. In addition, the study used exploratory research design.

A study by Gitonga (2003) on the application of Porters generic strategies framework in hospitality industry found that cost leadership is one of the strategies applied by the hospitality establishments in Nairobi, Kenya. However, the study used exploratory design, purposive sampling, covered firms in hospitality industry and fails to interrogate the association between generic marketing strategies and performance of firms in the media industry.

Using descriptive research design Kariuki (2006) studied marketing strategies applied by private middle level colleges in Nairobi and found that the preference of cost leadership strategy was not much, with 72% of the respondents in the hotel industry not preferring to use the strategy. However, the study was done in the education sector, testing the extent of use of marketing generic strategies among the firm s in the sample. It fails to link application of these strategies with performance of firms in the media industry.

Chepkwony (2008) investigated the marketing strategies adopted by micro and small entrepreneurs in Eldoret using descriptive research design and found that cost leadership strategy was neutral to the quality of the product. Business firms following this type of strategy seek competitive advantage based entirely upon achieving low cost production. However, the study did not check the association of cost leadership strategy with revenue levels and did not focus on radio broadcasting firms in Kisumu county.

Another study by Dulo (2006) on sources of competitive advantage and the performance of firms in the sugar industry found that manufacturing firms pursuing a cost leadership strategy follow policies of purchasing materials in large volumes to get low cost of inputs, mass production of a limited range of products, marketing non branded or privately branded goods or services (to avoid advertising costs), making extensive use of automation to maximize economies of scale, locating any manual production in low wages areas of the world and aggressive pricing to build and maintain market share. However, the study did not test the association between cost leadership strategy and performance of firms in the media industry. Similarly, Jowi (2006) conducted a study on the competitive strategies applied by Mumias Sugar Company and found that cost leadership was based on aggressive construction of large scale facilities, tight cost and overhead control, vigorous pursuit of cost reductions associated learning effects and utilization of economies of scale for discretionary expenses such as R & D, promotion or advertising. However, the study adopted a case study limiting universal generalizability and did not test the association between cost leadership strategy and performance. Besides, the study did not cover radio broadcasting firms in Kisumu county.

A study by Mbugua (2006) explored competitive strategies adopted by mainstream daily print media firms in Kenya and found that organizations following the cost leadership strategy had manufacturing and material management at the centre of attention. Business firms in the manufacturing industry employ lean manufacturing principles and the five sigma management system to achieve low cost leadership strategy. However, the study did not check the association of cost leadership strategy and revenue levels and did not focus on radio broadcasting firms in Kisumu County.

Reviewed literatures show that cost leadership is an important aspect of enhancing firms performance and competitive advantage. Prior researches use convenient sampling methods and exploratory or case study research designs and descriptive statistics; study firms in the sugar, hospitality and education sectors. They employ primary data based on cross-sectional study units, but fail to study radio broadcasting firms using descriptive research design. Therefore, no researches relate cost leadership strategy to performance of radio broadcasting firms in Kisumu County.

3. RESEARCH METHODOLOGY

The study adopted a correlational design. The purpose of correlational research design is to determine if there is a relationship between two or more quantitative variables from the same group of subject. Correlational research design is used to determine the extent to which two factors are related, not to the extent to which one factor causes changes in another factor. According to Mugenda (2003), correlational studies focus on relationships among variables in a study.

This study was carried out in Kenya, Kisumu County focuses on three radio firms namely Radio Lake Victoria 92.1 FM, Radio Nam Lolwe and Radio Sahara 93.4 FM, all located and received in Kisumu City in Kisumu County. Kisumu County occupies a central location within the great Lakes region of Africa. It covers a grand total area approximately 2086km^{2}and another 567 km^2 covered by water. Radio Lake Victoria is located at Dunga Beach in Kisumu, Radio Nam Lolwe is located in Tom Mboya Estate in Kisumu Town and Radio Sahara is located at Kiboswa Hills in Kisumu town. They are all privately owned, with two of the stations broadcasting in Luo, a local language dominant in the area, while the third one broadcasts its programmes in English and Kiswahili.

The target populations for this study were thirty five top and middle level management of the radio broadcasting firms located in Kisumu County.

The survey results from this study were tabulated and analyzed in two ways. For responses from listeners, descriptive statistics were used to analyze and describe the data. To answer the questions in this study, descriptive statistics such as mean and standard deviation and Pearsons' correlation analysis was used to measure the association between dependent and independent variables of the study.

4. RESULTS AND DISCUSSIONS

Association between Cost Leadership Strategy and Performance of Radio Broadcasting Firms

To achieve this objective, the respondents were asked to rate the extent to which cost leadership strategy influenced performance. The results are summarized in the sub-sections below

Table 1: Bi-Variate Pearson's Correlation between Cost Leadership Strategy and Performance

Variables		Revenue	Cost Leadership strategies
Revenue	Pearson Correlation	1	
	Sig. (2-tailed)		
Cost Leadership strategy	Pearson Correlation	.475**	1
	Sig. (2-tailed)	.008	
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Survey Data, 2014

As shown in Table 1.0, the association between cost leadership strategy and performance was positive and significant ($r = 0.475$, $p = 0.008$, $n = 30$). This implies that use of cost leadership strategies influences performance positively. This finding is consistent with past studies (Gakumo, 2006; Njoroge, 2006; Gitonga, 2003; Kariuki, 2006; Chepkwony, 2008 and Mbugua, 2006)) show that cost leadership is an important aspect of enhancing firms' performance and competitive advantage. In addition, Mbugua (2006) found that cost leadership aimed at reducing costs throughout the value chain and reaching the lowest cost structure possible and that cost leadership necessitates a reduction of costs in fields such as research and development; and advertising.

Bi-variate results between cost leadership strategy and radio broadcasting performance show that cost leadership positively associates with performance measured in terms of revenue.

5. SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Findings:

Bivariate analysis using Pearson's correlation shows a moderate positive association between the predictor variables and performance with varying significance.

Specifically, bi-variate results between cost leadership strategy show a positive association with radio broadcasting performance measured in terms of revenue.

Conclusions of the Study:

From the findings of the study objective, it can be concluded that that use of cost leadership strategies influences performance positively.

Recommendations:

From the conclusion of the study objective, management of radio broadcasting firms should intensify application of cost leadership strategies as these were found to positively influence performance of these firms.

Limitations of the Study:

The outcome of the study cannot be generalized to all radio firms in Kenya since the study was limited to radio broadcasting firms in Kisumu and did not incorporate firms in other sectors. The study adopted a census research design. The use of predetermined questions may have forced respondents to respond to questions even without properly comprehending them.

Suggestions for Further Research:

An exclusive study on the constraints facing adoption of Porter's generic marketing strategies should be conducted in Kenya. Future research should be conducted on other firms and compare performance with that of firms in the media industry.

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Testing of the relative importance of the marketing strategies should also be explored. Further research can be conducted based on various industries since such industries represent a variation in target markets and consequently the different extents of adoption. Comparisons can be done on whether or not there is any variation or similarity. Lastly, future research efforts can use more robust research designs such as time series and case studies.

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