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Influence of Resource Capabilities on Performance of Large Dairy Firms in Kenya

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Abstract:
Dairy industry, just like other firms focus to achieve high performance. This study aimed at assessing the influence of resource capabilities on performance of large dairy firms in Kenya. A descriptive research design was adopted for this study. This study targeted a sample of 244 senior and middle level management staff from large dairy. An interview schedule was used to collect information on generic strategies and performance indicators. Tools were tested for validity and reliability. Data were analyzed using SPSS software by use of descriptive statistical and inferential methods. Pearson correlation was used to establish the relationship between study variables. Findings show that effective transport system and storage facilities improved firm's performance, through increased production due to presence of storage and fast movement of goods to consumers as a result of effective transport system. All these led to improved performance through increased market share, low customer response rate and improved efficiency. In conclusion, resource capabilities are integral in enhancing performance. Thus, it is recommended that dairy firms need to focus on resource capacity especially of storage and transport to increase performance.

Keywords: *Resource capabilities, performance, large dairy firms*

1. Introduction

1.1. Background to the Study

Globally, the trend of performance of large firms has been on the decline (Audia & Greve, 2006; McColgan & Hillier, 2005; John, Lang & Netter, 1992). This decline has been notable in the reduction of market share (Mukhopadhyaya, Roy & Raychudhuri, 2012; Singh, Wimble & Sabamurthy, 2009), reduced profits (Hadley, 2005) and loss of customer satisfaction (Baker, 2013). The main underlying issues has been due to poor resource base (Carmeli, 2001), high competition (Mighty, 2016; Angir, 2012; Chepkwony, 2001). This has been mainly due to the competition by the informal sector which sells raw milk (Muriuki et al., 2003). A study by Yalla (2015) and Raguseo (2013), adopted resource capability as a measure of performance. Similarly, there is evidence of increased performance in dairy industry in England (Cotterill, 2001). Firm can adopt resource-based theory to achieve a competitive advantage (Raduan, Jegak & Alimin, 2009). Kenya has several corporations with the food industry being one of the large sectors (Karanja, 2003). The dairy industry is one of the food industries that make a big contribution to the Kenyan economy (Karanja, 2003) and a significant contributor to the Kenyan GDP. In fact, milk and milk products consumption is common throughout the world, yet dynamics that affect milk production are country specific (Nyariki & Thirtle, 2000). Kenya has approximately 60 dairy firms. Currently, 14 per cent of milk sold by the formal sector is equivalent to approximately 196 million litres. The formal dairy firms are categorised into, large scale, middle level and small firms and this categorization is in terms of production per day. The dairy industry in Kenya operates at both small and large scale (Nyariki, 2009).

The dairy industry mainly focuses on fresh milk or other processed products like yoghurt, butter, powdered milk and ghee (Karanja, 2003). Dairy farming in Kenya dates back to the colonial period. According to Karanja (2003) and Nyariki (2009), the inception of dairy industries can be traced back to the construction of the Mombasa- Kisumu railway line in 1890 that in turn attracted settlers. Later there emerged formalized institutional and organizational framework for milk marketing (Ngigi, 2005) and this led to the formation of Kenya Co-operative Creameries in 1925 (Nyariki, 2009). Notably, African countries have limited resources that affect progress to industrialization (Siavashan & Khari, 2012). The emergence of many formalized firms has changed the dairy industry (Ngigi, 2005). In addition, the presence of many unlicensed small-scale milk vendors (SSMVs) is currently a threat to milk production (Young et al., 2006). After milk liberalization in 1992 (Ngigi, 2005; Muriuki et al., 2003), KCC faced major challenges as other groups of players entered the dairy sector. The groups included small scale traders who moved in to sell raw milk from farmers to consumers. The other group entailed other private

processors. This emergence of unlicensed small-scale milk vendors (SSMVs) challenges the dairy industry (Young et al., 2006). Since then, other large firms have emerged which include, Brookside Dairies, Githunguri Dairies, Sammeer Dairies, Kinagop Dairies, Aspendos and Meru Co-operative Society. As a consequence, there has has been low performance in the large dairy sector. The sales of Githunguri dairy farmer's cooperative society limited went down due to increased competition (Kwanya, 2008). This also led to reduction in the market share. The sales in Brookside were also drastically reduced due to supply chain disruptions (Murigi, 2013).

1.2. Statement of the Problem

Dairy industry plays a key role in the Kenyan economy through revenue generation and food provision to the Kenyan population. The per capita milk consumption in the country is around 72 litres while per capita production is about 82 litres (Abiero & Njeru, 2016). The dairy industry has created employment for a majority of the Kenyan populace (Kamande, 2015). Informal milk outlets are shown to absorb most of the milk from small holder farmers accounting for over 80% of the total milk sold. Brokers, traders/hawkers, transporters, co-operatives and farmer groups are identified as the most important participants at the rural markets. The farm milk prices in informal market are 22% higher than in the formal marketing channel (Abiero & Njeru, 2016). The dynamics in the dairy industry have become complex due to the increase in the number of industries (Karanja, 2003). This has led to a large product mix and a high level of competition in the dairy industry as there are seven large firms in the industry. There has over time been a decline in the amount of milk produced from over 58% in early 2000 to the current 30% (Kamande, 2015; Karanja, 2003). Most of the milk is still being sold in the informal sector as raw milk (Muriuki et al., 2003; Mwangi, 2013). The emergence of milk hawking (Block, 1999), large number of milk bars (Mutave, Lore & Omore, 2004) as well as supermarket dispensers (Janzekovic et al., 2013) has led to low sales of milk by dairy firms. In the absence of appropriate strategies, there has been decreased performance in the firms leading to losses. Most of the previous studies are descriptive in nature while this study also provides an analytical approach to look at relationships between variables. Some previous researches have focused on case studies without a comparison aspect of several firms (Kinyenje, 2013; Mose, 2011; Wambugu, Kirimi & Opiyo, 2011).

1.3. Objectives of the Study

This study sought to investigate the influence of resource capabilities on performance of large dairy firms in Kenya.

1.4. Research Hypothesis

Resource capabilities has no significant influence on performance of large dairy firms in Kenya

1.5. Scope of the Study

The study targeted the senior and middle level management staff from large dairy firms. The study was limited to the resource capabilities and performance of large dairy firms in Kenya.

2. Literature Review

2.1. Theoretical Framework

2.2.1. Resource-Based Theory

To elaborate on the influence of resource capabilities on performance, this study reviews resource-based view theory. Penrose's resource-based theory states that firms differ because they possess a unique bundle of resources (Penrose, 1959). This view argues that it is the heterogeneity and not the homogeneity of the productive resources that give each firm its unique character. This theory was further emphasized by Wernerfelt (1984) who suggested that resources within a firm relates to its market position. The test of the strategic value of a resource is in terms of inimitability, durability, appropriateness, sustainability and competitive superiority as described by Barney (1991). The resource-based view (RBV) theory focuses on the resources of a firm. It postulates that the achievement of a competitive advantage in a firm depends on the resource capability of the firm (Pitelis, 2007). Resources are inputs into the production process and can be tangible or intangible (Pfeffer & Salancik, 2003). For example, capital equipment, skills of employees, patents and brands. Thus, the competitive advantage of a firm depends on its resource base (Barney, 1991; Karanja, 2003) and on the amount of resources invested and how they are used. The theory also indicates what a firm can do to be more effective than its competitors. Complex organizational capabilities pose a huge barrier for other firms to enter the market making them achieve a competitive advantage as it is difficult for others to replicate them. The focus is also on how best the firm exploits its resource capabilities. The implication of this theory to the study is that strategic management practices enhance organization performance on condition all the conditions on adoption of the strategies are met. The firms in the dairy industry have different levels of resources. This sought seeks to assess the resources of dairy firms and their role in achieving a competitive advantage.

2.2. Performance of the Dairy Firms

The level of competition has been found to affect performance of a firm (Nyariki, 2009). Lack of application of appropriate strategies in the formal dairy industry led to poor performance with the emergence and thriving of informal milk trade (Kamundi, 2014). The reported poor performance had lack of proper application of strategic practices as a major determinant (Kariuki, 2013). Some performance indicators like increased market share, low customer response rate and increased efficiency have been associated with the generic strategies. The organizational performance of a firm is the dependent variable in this study and was measured as market share, customer response rate and efficiency.

2.3. Conceptual Framework

The conceptual framework presents the independent and dependent variables and their interrelatedness (Figure 1). The independent variable is resource capabilities of a firm while the dependent variable is performance of large dairy firms in Kenya.

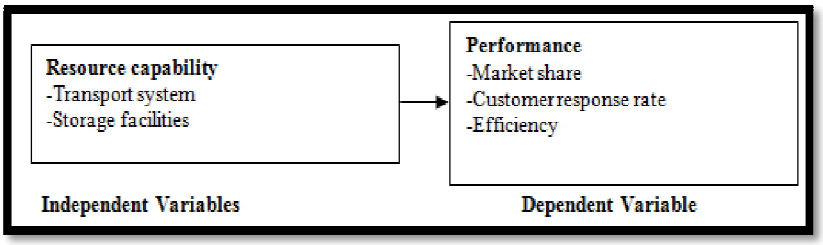

Figure 1: Conceptual Framework

2.3.1. Review of Variables

Resource capabilities refers to the variables such as; the level of capital invested, level of technology in use, human resource capacity, machine and equipment are integral to the level of performance of a firm. The organizational performance of a firm is the dependent variable and was measured as market share, customer response rate and efficiency.

2.4. Empirical Review

2.4.1. Resource Capability

A study by Mbungu (2014) on challenges facing implementation of enterprise resource planning in the dairy industry in Kenya highlights how dairy industry allocate resources to various functions. This is without relating it to performance. This study relates the resource capabilities of large dairy firms to performance. A study by Yalla (2015) shows that the amount of resources of a firm is instrumental in enhancing performance. Another study on resource-based theory show a positive contribution to performance (Raguseo, 2013). It would be useful also to investigate on the influence of resources on performance in the dairy industry.

3. Research Methodology

3.1. Research Design

A descriptive and explanatory research design was adopted for this study. It was used to bring out the current case scenario pertaining to the performance of large dairy firms (Bryman, 2007). This design is useful as it brings out the current situation in the dairy sector as well as help in analysing the relationships between the study variables which are generic strategies and performance indicators.

3.2. Target Population

This research targeted about 600 senior and middle level management staff from all the large dairy firms in Kenya (Wambugu, Kirimi & Opiyo, 2011). This study was carried out in seven large dairy firms in Kenya among the senior and middle management staff. The number of senior managers who responded were 238 out of the 244-targeted making a 97.5% response rate.

Multi-stage sampling was adopted. Purposive sampling was used to select large dairy firms to ensure that no other firm is taken. The selected population was divided into separate strata (senior and middle level staff). From each stratum number of respondents calculated was randomly selected using simple random sampling to ensure that those selected are a representation of the whole population

3.3. Data Collection Instruments

An interview schedule was used to collect using a Likert scale form so as to capture the feeling of the people. In order to pre-test the data collection instrument, content, wording and language, 5 senior level Managers and 5 middle level

managers from New KCC were interviewed prior to the study. This facilitated modification to the questionnaire by reviewing the questions, correcting mistakes and eliminating unnecessary ones, wweakness and errors identified during pre-testing and corrected. Validity of instruments was ensured by formulating the relevant questions according to the study objectives. Validation of the interview schedule was done by a panel of experts. Necessary adjustments were made to ensure their validity and that of the data collected. The study adopted the test-retest method to estimate the reliability of the data collection tools.

3.4. Data Analyses Procedures

Data were coded, cleaned and analyzed using SPSS software version 20.0 by use of descriptive statistical and inferential methods. Descriptive statistics such as frequency, means and percentages were used. Pearson correlation was used to establish the relationship between study variables. Further, multiple linear regression analysis was used to determine the extent to which the study variables predict the performance of dairy firms. Significance levels were determined at 95% confidence interval where a P-value of <0.05 was considered significant.

4. Results and Discussion

4.1. Introduction

This study was carried out in seven large dairy firms in Kenya among the senior and middle management staff. The study was aimed at establishing how generic strategies relate to performance of large dairy firms in Kenya. The study also focused on the resource capabilities and how they affect performance of the firms. Data were collected by use of open and closed ended questionnaires. The data were then entered, cleaned and analyzed using of SPSS software version 20.0. The results of the study and the discussion derived from the results are presented in this chapter. The number of senior managers who responded were 238 out of the 244-targeted making a 97.5% response rate.

4.2. Bio-Data

4.2.1. Gender and Position Held in the Company by the Respondents

Results show that 60.9% of the respondents were males while 39.1% were females. Results show that the senior management comprises 14.3% Chief Managers, 37.0% Heads of Departments and 48.7% Section Heads (Table 1).

		n	%
Gender	Male	145	60.9
	Female	93	39.1
Position held in the firm	Chief managers	34	14.3
	Section Heads	88	37.0
	Head of departments	116	48.7

Table 1: Gender and Position Held in the Company by the Respondents

4.3. Influence of Resource Capabilities on Performance of Large Dairy Firms

The study aimed to establish the influence of resource capabilities on performance of large dairy firms. Results are as shown in Table 2.

		1	2	3	4	5	Mean	SD
Transport system and market share	Freq	0	7	22	143	66	4.13	0.69
	%	0	2.9	9.2	60.1	27.7		
Transport system and customer response rate	Freq	0	4	16	141	77	4.22	0.64
	%	0	1.7	6.7	59.2	32.4		
Transport system and efficiency	Freq	0	12	8	18	200	4.7	0.76
	%	0	5.0	3.4	7.6	84.0		
Storage facilities and market share	Freq	0	3	6	212	17	4.02	0.38
	%	0	1.3	2.1	89.1	7.1		
Storage facilities and customer response rate	Freq	0	3	5	11	219	4.87	0.48
	%	0	1.3	2.1	4.6	92.0		
Storage facilities and efficiency	Freq	0	8	9	35	186	4.68	0.71
	%	0	3.4	3.8	14.7	78.2		

Table 2: How Does Resource Capabilities Relate to Performance of the Firm

Results showed that more than half 60.1% (143) of the respondents agreed to a large extent that transport system affects market share (mean = 4.13, SD = 0.69). About 59.2% (141) of the respondents also agreed to a large extent that transport system affects customer response rate (mean = 4.22, SD = 0.64). Similarly, majority 84.0% (200) of the respondents reported that transport system affects efficiency to a very large extent (mean = 4.7, SD = 0.76). Furthermore, 89.2% (212) of the respondents agreed to a large extent that storage facilities affect market share (mean = 4.02, SD = 0.38). Moreover, about 92.0% (219) of the respondents argued that storage facilities affect customer response rate to a very large extent (mean = 4.87, SD = 0.48). Some respondents, 78.2% (186) also agreed to a very large extent that storage facilities affected organization efficiency (mean = 4.68, SD = 0.71). It can thus be deduced that the resource capabilities significantly affect the performance of a firm. By using the transport system and storage facilities, the firms are able to produce, store and deliver their products with ease, thus improving market share, customer response rate and efficiency. Results further revealed that KCC had an upper hand over the other firms that hired or outsourced these facilities. This supports a study by Grant (2008) indicating that the resources base of a firm are key determinants of the performance of the firm. When a firm has adequate storage facilities, it is able to continuously produce more, without necessarily stopping the production lines. This is due to the availability of place to store the products as they await dispatch. A study by Aiyeku and Nwankwo (2015) indicate that the presence of storage facility influences the amount of product a company can produce successfully. An efficient transport mechanism in a firm ensures that the product can produce more, as more is released to the market, leaving the stores with ample capacity for more. A study by Mburu (2016), highlights that production of daily products relates to the presence of a transport mechanism. These two capabilities are important to a firm's resources as they ensure that the products are available at the end point, thus increasing sales and significantly improving the performance. Ndofor et al. (2011) note that the type and efficiency of the resources available to a firm are instrumental in improving performance.

4.4. Performance of the Firm

Performance in this study was assessed as the dependent variable to provide a basis for relating it with the independent variables. It was assessed by asking the respondents what they thought was the performance of their firm in terms of market share, customer response rate and efficiency. Results are as shown in Table 3.

		1	**2**	**3**	**4**	**5**	**Mean**	**SD**
High market share	Freq	0	8	5	18	207	4.78	0.645
	%	0	3.4	2.1	87.6	87.0		
Low customer response rate	Freq	0	6	11	27	194	4.71	0.669
	%	0	2.5	4.6	11.3	81.5		
Increased efficiency	Freq	0	6	19	22	191	4.67	0.730
	%	0	2.5	8.0	9.2	80.3		

Table 3: How Do You Rate the Performance of the Firm

Based on the findings, 87.0% (207) of the respondents agreed to a very large extent that they have a high market share (mean = 4.78, SD = 0.645). Similarly, 81.5% (194) of the respondents agreed to a very large extent that they have a low customer response rate (mean = 4.71, SD = 0.669). Around, 80.3% (191) of the respondents reported to a very large extent that they have increased efficiency (mean = 4.67, SD = 0.730). It was thus noted that good performance was attributed to large market share, low customer response rate and increased efficiency.

4.5. Correlation between Resource Capabilities and Performance

The study used Pearson Product Moment correlation analysis to assess the nature of the relationship between the independent variables and the dependent variable. In this study, there was a medium relationship between the resource capabilities and performance ($r = 0.048$, p-value < 0.01).

4.6. Test of Hypotheses

Based on the findings, the null hypothesis is therefore rejected and the study concludes that resource capabilities have a significant effect on the organization performance. This is similar to other studies that indicate that the presence of storage facility influences the amount of product a company can produce while an efficient transport mechanism in a firm ensures that the product can produce more as movement of goods is fast (Mburu, 2016; Aiyeku & Nwankwo, 2015; Ndofor et al., 2011).

5. Summary, Conclusion and Recommendations

5.1. Summary

Findings show that effective transport system and storage facilities improved firm's performance, through increased production due to presence of storage and fast movement of goods to consumers as a result of effective transport system. All these led to improved performance through increased market share, low customer response rate and improved efficiency.

5.2. Conclusion

In conclusion, resource capabilities are integral in enhancing performance. Thus, more goods were produced and were accessed by the customers with ease.

5.3. Recommendations

Firms can have a better transport system and storage facilities, firms can improve on performance as they can produce, store and transport more goods with ease.

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