



RESEARCH ARTICLE

EFFECTS OF COMPETITIVE STRATEGIES ON SHAREHOLDER VALUE AMONG SELECTED FIRMS LISTED ON NAIROBI STOCK EXCHANGE, KENYA

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ABSTRACT

This paper is based on a study to establish the effect of competitive strategies on shareholder value among listed companies on the Nairobi Stock Exchange. The specific objectives were: to establish the effects of cost leadership strategy; differentiation strategy and focus strategy on shareholder value. The study depicted each of the three competitive strategies as independent variables and shareholder value as the dependent variable. The study utilized explanatory research and multiphase sampling designs targeting companies and employees. Questionnaires were used to collect data on competitive strategies while document analysis guide was used to gather secondary data on shareholder value. The results revealed that cost leadership and differentiation and focus strategies have a weak positive association with shareholder value. Furthermore, the regression model revealed that competitive strategies accounted for 12% of variations in shareholder value hence able to create value. It was concluded that all competitive strategies have a significant positive effect on shareholder value. The study recommended that firms implement competitive strategies, and scholars pursue studies towards how differentiation and cost leadership strategies can be utilised together.

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INTRODUCTION

This study aimed at establishing, by using companies whose common stock was listed and traded on the Nairobi Stock Exchange, whether competitive strategies given by Porter (1985) can affect shareholder value. According to Chew (1993), the traditional finance theory posits that managers seek to maximize the market value of their firms. Therefore the primary goal of a business organisation should be maximization of shareholder value (Horne, 2001; Brigham *et al.*, 1994 and Pandey, 2008). It is on this premise that Young and O'Byrne (2000) argue that every useful performance metric must attempt to measure changes in shareholder value. This viewpoint is supported by most financial theorists, such as Furrer *et al.* (2007) and Rappaport (1998) who present that maximizing shareholder value is the appropriate goal for determining corporate strategies and in assessing corporate performance. The Institute of Chartered Accountants in England & Wales (ICAEW) (1999) defines shareholders' perspective of shareholder value as growth in a company's share price over a period together with dividends received from it. According to Kippenberger (1996), the concept of shareholder value in financial management can be traced back

to 1920s and 1930s when an American company called Du Port started measuring corporate performance using Return on Investment (ROI). In 1960s and 1970s, as Du Port and other American companies undertook several diversifications, it became apparent that earning per share (EPS) was a more important measure than ROI. The prominence of EPS as a measure of corporate performance grew rapidly. However, accounting and finance theorists started questioning the appropriateness of using an accounting information-based measure such as EPS (Biswas, 2001; Young and O'Byrne, 2000; ICAEW, 1999; Wet, 2005). Rappaport (1998) outlines the shortcomings of using unadjusted accounting information such as existence of alternative accounting procedures, inadequate recognition of investment requirements and failure to recognize time value for money. This inherent weakness of EPS gave rise to the concept of shareholder value as a measure of corporate performance. Alfred Rappaport is cited as being the first person to use the term 'shareholder value'. Europe was first in taking up shareholder value as a measure of corporate performance after United States of America. Ferrarini (2002) argues that the spread of shareholder value orientation to the United Kingdom, Continental Europe, Australia and even Japan was as a consequence of globalization of both competition and capital markets along with the wave of privatizations. In China, accession to the

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World Trade Organization by mid-2000 may have played a role making Chinese officials to lower trade barriers and accelerate the pace of economic reform and hence a shift to shareholder value orientation. In Africa, South Africa may be termed the first country to accept shareholder value as a performance metric in Africa. Geysers and Liebenberg (2003) discuss introducing Economic Value Added (EVA) as a performance measure for agribusinesses and co-operatives in South Africa while Wet (2005) used companies listed on the Johannesburg Securities Exchange South Africa to investigate the strength of the relationship between EVA and other traditional accounting measures relative to market value added (MVA). These were followed by Nigeria, Kenya and Uganda. However, there has not been any published research that addresses the concept of shareholder value in Africa, empirically.

Advocating for the use of shareholder value in corporate strategy formulation, Rappaport (1998) illustrates how various corporate strategies can be used to create shareholder value. He argues that the two objectives of competitive advantage and shareholder value are the same. In addition, Mauboussin (1998) illustrated the link between shareholder value and competitive strategy by asserting that the strategy is the process that allows a company to achieve a competitive advantage while competitive advantage is the ability to generate returns on capital in excess of the cost of capital. According to Johnson (2001), shareholder value creation stems from management's ability to generate discretionary cash flows to shareholders in excess of the required rate of return on equity. Therefore, a successful strategy is one that allows the company to create shareholder value (Thakor *et al.*, 1999). Koontz and Weihrich (1998) define a strategy as the basic long term objective of an enterprise and adoption of courses of action and allocation of resources necessary to achieve the objective. It is therefore important that a firm chooses a strategy that helps it attain its primary goal, that is, increase shareholder value. Smigocki (2006) advises that during strategic planning process, Shareholder Value Maximization should be incorporated and the company should give serious consideration to eliminating those matters that do not contribute to increasing shareholder value and replacing them with those that will.

Several management writers and scholars have come out with different types of strategies to maximize shareholder value. Pandey (2008) gives the following strategies: Revenue enhancement, Cost reduction, Asset utilisation, Cost of capital reduction. Bloxham and McGarvie (2006) suggest that innovation can do it. Johnson (2001) points out that strategic decisions involving investment opportunities, corporate acquisitions and divestitures, restructuring and dividend policy, all have long-term economic implications to the value a company creates for its shareholders. However, Porter (1985) analysed the competitive advantage of a firm in relation to its scope of activities (competitive scope) and came up with three strategies which he called competitive strategies. He argued that a firm that would implement these strategies would earn returns in excess of the industry returns. These strategies are: cost leadership, differentiation, and focus strategies. There seems to be a general concession that indeed competitive strategies are able to give superior profits, but few researches have been done to establish whether competitive

strategies can increase shareholder value, leave alone profits. Moreover none of these researches has been carried out in Africa. It is therefore paramount that a company channels all its efforts in ensuring that shareholder value increases. This should be the primary goal of any company. However, this will require selection of an appropriate strategy to enable this goal. The foregoing study established whether competitive strategies have an effect on shareholder value.

Statement of the problem

This study aimed at establishing, by using companies whose common stock is listed and traded on the Nairobi Stock Exchange, whether competitive strategies given by Porter (1985) can increase shareholder value. According to Porter (1987) and Bowman (2008), it is competitive strategy that creates competitive advantage, hence expected to create shareholder value. Moreover, some of the works done in the past were case studies which are hard to generalise from. Therefore, there is lack of studies that established clearly the types of strategies that can be used by companies to create shareholder value. Specifically, no study has established whether competitive strategies can create shareholder value and hence test the argument of Porter (1985) in relation to shareholder value and not profit since profit is short term. The study sought to fill these gaps.

Objectives of the study

The study sought to establish the effect of competitive strategies on shareholder value among firms listed on the Nairobi Stock Exchange. Its specific objectives were: to establish the effect of Cost Leadership strategy on shareholder value; to establish the effect of Differentiation strategy on shareholder value and to establish the effect of Focus strategies on shareholder value.

Conceptual framework of the study

In the study, beta excess return was used to capture changes in shareholder value attributable to firm-specific factors which could include dividend payout, unexpected changes in income, retained earnings and strategy. Cumulative beta return was used to assess the strategic impact on shareholder value over a long period. From the argument of De Wit and Meyer (2005), it was assumed that firms do not pursue one competitive strategy exclusively, instead they may pursue to some level more than one strategy at the same time. The three competitive strategies (cost leadership, differentiation and focus strategies) are the independent variables in this study. Each of them was examined to find out whether companies utilizing the strategies had a growth in shareholder value or not. Therefore, shareholder value was the dependent variable. A multiple regression model was adopted to show the effect of competitive strategy on shareholder value.

MATERIALS AND METHODS

The study adopted Explanatory research studies (also called Casual Studies) design to establish causal relationship between variables with its main emphasis being to study a problem in order to explain the relationship between variables (Thornhill *et al.*, 2000). A causal study also aims at explaining how one

variable produces changes in the other (Cooper and Schindler, 1999). This study sought to establish the effect of competitive strategies on shareholder value. In the end of the study conclusions were made basing on the relationships established.

The target population

The population consisted of senior managers and long-served employees of listed companies that had been actively trading their equity shares, had not been suspended from trading on NSE, had not had a major acquisition or merger during the period of September 2006 to August 2009 and had been trading for more than six months after their initial public offer done before September 2006. This is because shares of a company that have just been issued to the public by an initial public offer are in most cases under- or over-valued and may not reflect the true market valuation of the company. A major acquisition or merger will in most cases lead to formation of a new company but remain listing on NSE under the primary company's name. Moreover, senior managers and long-served employees were most appropriate group of employees who would understand, and capable of commenting on, strategy or strategic actions a company had been utilising over the years. Of the current 55 companies listed on NSE, senior managers and employees of only 37 companies were targeted having approximately 15 senior managers and 25 long-served employees. This made a total of 1480 targeted employees.

Sample design

Double sampling (also called multiphase sampling design) was used to identify respondents for the study. Convenience sampling was first used to identify twenty-four (24) companies that were willing and ready to participate in the study and Snowball sampling used to identify ten (10) employees that were either senior managers or long served from each selected company. Convenience sampling was used since not all companies in Kenya are willing to participate in research studies because of either fear of data being misused for non-academic purposes and risk of data falling into the hands of competitors. Snowball sampling was used because prior information on employees of the selected companies that are senior employees or served for a long time lacked. Accordingly, a sample of 240 respondents was obtained from 24 companies that were willing to participate.

Data collection

The study had three independent variables: the competitive strategies, and one dependent variable, shareholder value. Secondary data on the dependent variable was collected using document analysis guide while independent variables were measured using a five point Likert Scale questionnaire. The document analysis guide collected data relating to monthly share prices of selected companies for 36 months and was administered on the documentation held by both Capital Markets Authority and Nairobi Stock Exchange. On the other hand, the questionnaires were mailed to selected company executives in top and middle management levels or long served employees. These were prepared and posted to the executive officers in the selected companies and requested to

distribute to any other willing senior manager or long served employee.

Data analysis

All sections in Main Investment Market Segment and Alternative Investment Market Segment were grouped together to make a market portfolio and a Market return (R) was computed for every month. On the other hand, monthly Return for each individual security (r) was computed. Then R was subtracted from r to get beta excess return. It is argued by Horne (2001) and Furrer *et al* (2007) that subtracting R from r will give beta excess return and hence eliminate effect of extraneous factors. Companies pursuing competitive strategies are expected to have a higher return r that is higher than market portfolio return R ; hence beta excess return should be positive. However, if the case is otherwise beta excess return would be zero or negative. The beta excess returns were cumulated (summed-up) over 36 months to eliminate effects of non-strategy firm-specific factors which cancelled themselves out by having positive and negative effects over time. Therefore, each security would have a single score of cumulative excess return. The questionnaire measured the level at which various competitive strategies were utilized by the companies on a scale of 1 to 5. Therefore, each company had a single numerical score for each strategy represented by Cost Leadership Strategy index, Differentiation Strategy index, and Focus Strategies Strategy index formulated after factor analysis. This data was first analysed for correlation between each strategy and CBER using Product Moment Coefficient of correlation r for association and coefficient of determination r^2 to establish the extent to which competitive strategies accounted for changes in shareholder value. Lastly, a multiple linear regression model was used to establish the multiple regression coefficients of determination, partial coefficients of correlation, and difference between shareholder values created by all strategies.

RESULTS AND DISCUSSION

Background information

Of the 240 questionnaires distributed to 240 respondents from 24 companies listed on NSE 182 questionnaires were returned from 24 companies giving a response rate of 75.83%. The respondents that accepted to participate in the study were from various industries and companies. The employees who filled the questionnaires had stayed in the companies for an average of 6.21 years with the lowest duration being 0.3 years and the highest being 24 years. The duration an employee had been working in a given company was important since a long-served employee is expected to be more conversant with the issues covered and their response more reliable than a short-served employee.

Cost leadership strategy index

Ten questions were used to estimate the level of utilisation of Cost Leadership strategy and the responses were given on a five-point Likert scale with a lowest score of 1 and a highest of 5. The question asked related to the price of the company's main products, policies on cost control, wastages reduction,

acquisition of technology and machines, full capacity utilisation, employee retention and also on mass marketing.

Cost leadership descriptive statistics

The results of the analysis indicated that interval variable of "price of product is lowest" had a Mean score equal to the Mode (3.00) a high standard deviation of 1.23 and skewness (*sk*) of -0.09 and Kurtosis (*ku*) of -0.93. All these values indicated a distribution that is very close to a normal distribution. The mean was 3 and the mode was 3 which is the midpoint having most companies clustering in the middle forming a mesokurtic distribution. A high standard deviation of above 1, since this was the interval difference between scores, indicated a large spread with some values on both extremes. The same characteristics of normal distribution were portrayed by interval variables such as "company strict with wastages", "Machine acquisition", "and training on cost reduction", "full capacity utilisation", "lack of market segmentation" and "lack of product differentiation". However, variables such as "cost control", "technology acquisition" and "no employee retention" are negatively skewed and having platykurtic distribution since most values are on the right of the mean. In this way, dimensional measure, like mode, is higher than the mean; hence *sk* is negative while the shape is flatter than a normal distribution with scores tailing further from the mean than a normal distribution. This implies that for the three interval variables, there are more companies that control their costs, acquire technology with the aim of reducing cost and retain their high value employees than those companies that do not. Furthermore, apart from "Full Capacity Utilization" with a mean score of 2.93, all interval variables had a mean score that is equal or above average of 3, with 'Lack of Market Segmentation' having the highest mean score of 4.28 followed by "Lack of Product Differentiation" with a mean score of 4.23. This indicates that most listed companies in Kenya do not segment their markets and differentiate their products to satisfy particular needs of their customers.

Factor analysis of cost leadership strategy

Factor analysis was used on all the ten items in the Likert scale to identify the underlying variables using the Principal Components method to extract an initial solution with Eigen values greater than 1. Four components were extracted out of the ten interval variables. The results showed a Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) of 0.64 with significance level of $p = 0.00$ indicating the appropriateness of using the data for factor analysis. The initial Eigen value analysis results showed that four variables explain a total of 72.73% of the variance in cost leadership. Varimax Rotation method with Kaiser Normalization was performed and converged after five iterations, reducing factors from ten to four components. The first component was identified as measuring "Lack of Uniqueness" and the factors loaded are: "Lack of Market Segmentation"; "Lack of product differentiation" and "No employee retention". It was realised that the central idea in all the three factors loaded on this component is that the company does not do much to differentiate its products, employees and market from the competitors. The second component was "Acquisitions to Lower Cost" and the factors that were loaded here are: "technology acquisition"; "machine acquisition" and "full capacity utilisation". These three variables aimed at

discovering the policy behind any form of major asset acquisition or purchase and establish whether the company is propelled by the pressure to reduce cost or otherwise. The third component was "Wastage Control" whose factor loading included "company strict with wastages" and "cost control". These factors were seen as tackling directly the issues of cost and wastage control. The fourth and final component was "Price and Cost Training" and the factors loaded were: "price of product is lowest", and "training on cost reduction". To construct the Cost Leadership Strategy Index (CLSI), mean scores of all interval variables were used. The mean was found to be more powerful than using summated scores since the mean included all values in its calculation and still remained in the original range of between 1 and 5; hence low variance or dispersion of values.

The results revealed a mean score of 3.416 which was above the mid score indicating that there are more companies pursuing this strategy than those that do not. Mode of 3.60 and median of 3.50 were all above the mean but not much far apart. The dispersion was measured by standard deviation (*s*) which was 0.50, not above 1 - the difference between two consecutive Likert scale scores. A lower standard deviation meant that the variables are not highly dispersed and lies between a minimum of 1.80 which is below the average score and a maximum of 4.50. The results also revealed that the distribution is slightly negatively skewed with $sk = -0.527$ implying that most scores were above the mean than those below. Kurtosis was low at $ku = -0.04$ indicating that the distribution is quite close to normal distribution. The distribution was shown by using a histogram which revealed a shape close to a normal distribution but with more values on the left of the mean than on the right, hence slightly negatively skewed, but the peak was close to leptokurtic distribution. The skewness was as a result of scores of between 3.4 and 4.0 having high frequencies with high frequencies.

Differentiation Strategy Index (DSI)

A five point Likert scale was used to quantify the responses on ten questions asked to establish the level of utilisation of differentiation strategy in the companies listed on NSE. The questions asked related to the uniqueness of the main product compared to competitors, pricing of products, retention of employees, quality measures, acquisition of technology and machine and customer service.

Descriptive statistics of differentiation strategy

It was found that the mean score of interval variables of "unique product", "high product price", "high salary to retain employees" and "market segmentation" had a mean of below 3, indicating that most companies listed on NSE do not sell differentiated products, do charge a lower price compared to the competition, do not serve segmented market and do not pay high salaries to retain high value employees. However, other interval questions had a mean score above 3 suggesting that most companies have preferred quality of supplies, actively manage customer complains, have research and development or related departments that search for new features and modification of their products and lastly acquisition of new machines and technology is motivated by desire to improve quality.

Standard deviation for most interval variables was quite high, above 1, indicating a highly dispersed distribution, hence both extreme-end values present for the variables. Analysis of the shape of distribution revealed 'unique Product' ($sk = 0.71$); "high product price" ($sk = 0.20$); "high salary to retain employees" ($sk = 0.56$) and "market segmentation" ($sk = 0.17$), all had a mean score of below 3. These are positively skewed indicating more values below the mean than above the mean, hence either the mode or median or both are below the mean. Moreover, the same variables together with "machine for quality" and "technology for unique product" had negative kurtosis indicating a relatively flat distribution compared to the normal distribution. Other variables such as "quality supplies" ($sk = -0.22$); "customer complains" ($sk = -0.76$); "new product design" ($sk = -0.85$); "modify products" ($sk = -0.04$); "machine for quality" ($sk = -0.31$), and "technology for unique products" ($sk = -0.40$) had a negative skewness indicating that more values above the mean than below the mean score. Furthermore, kurtosis of the same variables revealed that apart from "machine for quality" and "technology for unique products" all other variables had a positive ku suggesting a more peaked distribution compared to the normal distribution. However, since Skewness and Kurtosis measures are non-dimensional, the relative values are too low; hence distribution for all interval variables can be assumed normal for ease of further analysis.

Factor analysis of differentiation strategy

Factor analysis was used on all ten questions asked to establish the level of utilisation of Differentiation Strategy by companies and the results revealed that three variables accounted for a total of 64.51% of the variance in Differentiation strategy. The Factor analysis rotation, using Varimax method by suppressing absolute values less than 0.3 converged after five iterations and resulted in extraction of three components. Component one represented "Uniqueness" and the factors that were loaded to this component are: "unique product"; "high product price"; "high salaries to retain employees" and "quality supplies". A company that pursued the four factors would clearly be interested in uniqueness in all that they did, such as uniqueness in product type, price, skilled and experienced employees, and uniqueness of supplies hence the component being referred to as *uniqueness*. Component two represented "Better Customer Satisfaction" and the factors loaded included "customer complains"; "new product design"; "Modify products" and "market segmentation". The underscoring objective in pursuing the four factors above is to ensure that the customer is more satisfied and continuously gathering information, carrying out research and development to modify and redesign product to better fit few targeted customers in the segments. Customer satisfaction is therefore the driving force for all these four factors.

Lastly, the third component represented "Acquisition for Uniqueness". The factors loaded included "machines for quality" and "technology for unique product". These factors sought to establish the objective behind acquisition of new assets and technology and it was expected that a differentiator would seek assets and technology that can make her produce better quality and unique products compared to the competitor. Therefore the aim of acquisition was either quality or

uniqueness or both. For the purpose of further analysis, Differentiation Strategy Index was constructed. The perceived level of differentiation strategy utilisation for every respondent was found as the average of all scores for the ten differentiation strategy interval questions. The results revealed that the perceived level of utilisation of differentiation strategy by the listed companies as measured by DSI range was 2.70, with a minimum value of 1.90 and maximum value 4.60. Such a small range indicated that most values are clustered together with some respondents perceiving DSI at a very low level such as 1.90, and others perceiving it at a very high level of 4.60. This is also supported by a very low value of standard deviation of $s = 0.60$. The Mean of DSI was revealed as 3.11 and Median of 3.10 while the mode was 2.80, suggesting that DSI is perceived by most respondents to be slightly above average.

Focus Strategy Index (FSI)

The third independent variable was the Focus Strategy Index and the study sought to establish the level of utilisation of focus strategy by companies listed on NSE. Consequently, eight questions were asked and responses were obtained in form of a five point Likert scale scores. The interval questions covered areas of niche marketing, product and customer uniqueness, and needs being satisfied.

Descriptive statistics analysis of focus strategy

These were "share customers" ($ku = 5.35$); "product differ" ($ku = 2.09$); "customer's given priority" ($ku = 0.70$) suggesting a high frequency (or clustering) of values near the mean. However, lower revenue had a shape close to mesokurtic distribution since it had a low value for kurtosis ($ku = -0.32$). On the other hand, majority of variables, including "unique customers" ($ku = -0.48$); "fewer customers" ($ku = -1.26$); "specific need neglected" ($ku = -1.13$) and "customer loyalty" ($ku = -0.79$). These suggested a platykurtic distribution with low clustering and low frequencies of the values near the mean hence frequencies are relatively fairly distributed. Therefore, the descriptive statistics of focus strategy interval variables revealed very low levels of utilisation of this strategy as indicated by low values of mean score of interval variables and a high number of interval variables being positively skewed. However, high values of standard deviation indicated a wide spread, clearly revealing that some companies still had high levels of focus. In conclusion, it showed that apart from a few companies, majority of the listed companies did not pursue a focused strategy.

Factor analysis of focus strategy

The initial solution of factor analysis using Principal Component method revealed a KMO of 0.60 and Bartlett's Test of Sphericity of 673.70 at significant level of 0.00. Initial Eigen values analysis indicated that three underlying variables accounted for a total of 76.57% of the total variance in FSI. Rotation using Varimax with Kaiser Normalization method converged after four iterations and extracted three components from the underlying eight variables. The first component represented "Target of Small Market" with a factor loading of four interval variables of "unique Customers"; "fewer customers"; "lower revenues" and "specific need neglected".

Clearly, the underlying concept for all the four-interval variables is that of a firm targeting and focused on a small market which would have few and unique customers and their need should be unique from that of the rest of the market and because of fewer customers the companies income would be lower than the major players targeting the whole market without a focus.

The second component was identified as “Customer Focus” with two factors loading of “customer first” and “customer loyalty”. The two-interval variables concentrated on establishing how a company related with their customers. A focused company was expected to put the customer first and inculcate customer loyalty since the customers served are few. The third component represented “Target Unique Customers & product” with two factors loading of “share customers” and “product differ”. The interval variable of “share customer” sought to establish that focused firms do not share customers with unfocused companies while “product differ” variable sought to establish that focused firms have unique products. For further analysis of how Focus strategy relates to performance of the companies and competitive strategy, a Focus Strategy Index (FSI) was constructed to represent focus strategy in further analysis. The index was constructed as an average of all scores of the eight interval questions. Hence each respondent had only one score for FSI. The results revealed that the mean of all FSI for all respondents was 2.49, Mode of 2.75 and Median of 2.38, which were below the average score or mid score on a five point Likert scale of 3. This indicated that focus strategy was not widely utilised by companies listed on NSE. The results also revealed that the lowest score from respondents had a score for FSI of 1.25 and a maximum of 4.25, hence a range of 3.00. This indicated that some respondents, however, perceived their companies as having very low utilisation of focus strategy, as indicated by FSI of 1.25, while others had perceived their companies utilisation focus strategy to high at FSI = 4.25. However, the small range and low standard deviation ($s = 0.66$) indicated a clustered dispersion around the mean.

There was a slight positive skewness ($sk = 0.45$) indicating that more values are below the mean than above the mean, hence a tail-forming as you move away from mean to the positive. This still confirmed that fewer firms utilised focus strategy. Kurtosis on the other side was also positive but quite low ($ku = 0.39$) indicating a slight peaked shape of the distribution and high frequencies for values near the mean than those away from the mean and further confirming low levels of focus strategy.

Beta excess returns analysis

The share prices were used to compute for market portfolio price which was computed as the arithmetic mean for all share prices. The results showed the market experienced several shocks from various factors affecting the price levels of all shares hence the general market prices. If shareholder returns were computed directly from share prices, all companies would have negative returns. However beta excess methodology was used to eliminate the effect of market factors from the changes in prices of individual shares, a market portfolio return R was computed and subtracted from the individual share return r to obtain beta excess returns. These returns are only affected by company emanating factors, but to eliminate non-strategy company specific factors, all beta excess returns for 36 months for each individual company share were cumulated. On average, all companies were successful in creating value with a mean of 60.23% for a period of three years. The shareholder value created by these companies fell between -17.07% on the lowest side and 224.76% on the highest side. This created a wide range of 241.83% suggesting a high dispersion which is also confirmed by the standard deviation of 51.78. These indicated that there are some companies that had terribly failed in creating value but instead ended up destroying value, hence having a negative cumulated beta excess. On the other hand, measures of distribution shape of skewness had $sk = 1.26$ suggesting a slight positively skewed distribution indicating more companies having cumulated beta excess returns below the mean than those above the mean. Moreover, kurtosis was also positive but quite low at $ku = 2.89$ indicating a slight-peaked distribution as a result of clustering of more values near the mean.

Company Level of Competitive Strategies and CBER

The study sought to analyse the relationship between the three competitive strategies and shareholder value. Therefore, the measures of competitive strategies used in this study, that is CLSI, DSI, FSI, as well as cumulative beta excess return was analysed at the company level. The level of CLSI, DSI, FSI and cumulative beta excess return for all respondents from a single company were averaged and the mean used as the level of the variable for the company.

Correlation between competitive strategies and shareholder value

A two-tailed Pearson correlation analysis was carried out to establish the association between competitive strategies and

Table 1: Correlation between Competitive Strategies and Shareholder Value

		Cost Leadership Strategy Index	Differentiation Strategy Index	Focus Strategy Index	Cumulated Beta Excess Return
Cost Leadership Strategy Index	Pearson Correlation	1.00			
	Sig. (2-tailed)				
Differentiation Strategy Index	Pearson Correlation	-0.28(**)	1.00		
	Sig. (2-tailed)	0.00			
Focus Strategy Index	Pearson Correlation	0.10	0.06	1.00	
	Sig. (2-tailed)	0.20	0.46		
Cumulated Beta Excess Return	Pearson Correlation	0.17	0.21	0.228(**)	1.00
	Sig. (2-tailed)	0.02(*)	0.00(**)	0.00	

Source: Survey Data (2009; ** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

shareholder value. The results revealed that CLSI had a significant weak but negative association with DSI at 1% level of significance ($r = -0.28$ and $p = 0.00$). This indicated that increase in pursuance of cost leadership is likely to cause a reduction in pursuance of Differentiation strategy and vice versa. Therefore, the two strategies should not be pursued together. In addition, CLSI had a positive but very weak and non significant association with FSI ($r = 0.10$ and $p = 0.20$). This indicated that increase in pursuance of cost leadership strategy has no material effect on pursuance of focus strategy; hence the two strategies can be pursued concurrently. Finally, results also showed that CLSI had a weak but positive and significant association with CBER, at 5% level of significance, ($r = 0.17$ and $p = 0.02$). This indicated that pursuance of cost leadership strategy is likely to increase shareholder value of a company with 95% confidence level. Furthermore, it was revealed that DSI had a weak non significant association with FSI with Pearson correlation ($r = 0.06$ and $p = 0.45$). This Suggests that differentiation strategy had no significant effect on pursuance of focus strategy and vice versa; hence the two strategies can be pursued concurrently and also because of the high value of p , the two strategies are not linearly related. It was also found out that FSI had a weak positive but significant association with CBER at 1 % significance level with Pearson correlation of $r = 0.23$ and $p = 0.00$ clearly indicating that focus strategy is likely to increase shareholder value at 99% confidence level.

Regression Analysis Results

Multiple Linear regression analysis was carried out and was guided by Multiple Linear Regression model. The t-statistics were all below -2 for the constant at $t = -3.14$ and above +2 for CLSI ($t = 3.05$), DSI ($t = 3.63$) and FSI ($t = 2.74$) indicating that all variables are important to the model. This is further supported by the p-values which were all significant at 1%. Standardized beta coefficient revealed that differentiation strategy has the highest effect on shareholder value ($\beta_2 = 0.26$, $p = 0.00$) followed by cost leadership ($\beta_1 = 0.22$, $p = 0.00$) and last is focus strategy ($\beta_3 = 0.19$, $p = 0.00$).

The ANOVA results revealed that the sum of Squares for the regression model were lesser than the sum of squares for the residue, clearly indicating that the model explained lesser variance than what it failed to explain. However, the value of F – statistics were significant at 1% indicating that although variance explained was lesser than unexplained, the variance explained was significant and was not by chance. Therefore, the model worked better than guessing the mean value. The model also showed that the Multiple Correlation coefficient R , which showed the relationship between observed values and model-predicted values, was equal to 0.37. Although the correlation was positive, it was weak. The Coefficient of Determination R^2 was 0.14 indicating that only 14% of variations in CBER are explained by the MLRM.

Data was also analysed to establish the possibility of multicollinearity which may have affected the results. The results revealed that correlation values for all independent variables (predictors) did not fall sharply from Zero-order correlation to Partial and Part correlations suggesting very low levels of Collinearity. The Collinearity statistics showed tolerance of 0.91 for CLSI indicating that other dependent

variables in the model could only explain 9% of total variance in CLSI clearly indicating very low Collinearity with other predictor. For DSI, tolerance was 0.92; hence only 8% of total variation in DSI could be explained by other predictors compared to 92% that could not. For FSI, tolerance was 0.98; hence 98% of variations in FSI were not as a result of other predictors but because of other factors apart from the independent variables used in the study. Therefore, multicollinearity was quite low and this was further supported by the Variance Inflation Factor (VIF) which was below 2.0 for all independent variables.

CONCLUSION

According to Porter (1985), companies pursuing cost leadership strategy are expected to generate returns above average. Therefore, a cost leader should create positive shareholder value. This paper supports this proposition. The foregoing study established that CLSI has a significant positive weak correlation with CBER and MLRM revealed a positive significant effect on share holder value with positive beta coefficient. Hence increase in pursuance of cost leadership strategy will increase shareholder value. However, the paper also concludes that cost leadership alone will not be able to increase shareholder value significantly, unless other factors beyond the scope of the foregoing study are also in place, since the relationship is weak. Therefore, cost leadership has an effect on shareholder value. Furthermore, the cost leadership strategy was the most pursued strategy. On the effect of differentiation strategy shareholder value, Porter (1985) argues that differentiation strategy will lead to a firm generating above average returns. The findings of the study seem to support this argument as DSI had a significant positive weak correlation with CBER and MLRM revealed a positive significant effect on shareholder value with positive beta coefficient. However, because the relationship is weak, a change in differentiation strategy will not cause a significant change in shareholder value. Therefore, the differentiation strategy has an effect on shareholder value.

Lastly, on the effect of focus strategy on shareholder value, Porter (1985) and Hill and Jones (1998) propose that firms should generate returns above average. This implies that firms pursuing focus strategy will create shareholder value more than firms that are not pursuing any competitive strategy. The findings of the study supported this argument since the FSI was found to have a significant positive weak correlation with CBER and MLRM revealed a positive significant effect on shareholder value. Therefore, the focus strategy has an effect on shareholder value. Furthermore, these results concurred with the argument by Rappaport (1998) that the objective of competitive advantage and shareholder value are the same; hence firms pursuing competitive advantage are likely to create shareholder value.

Furthermore, the results on regression analysis indicated that competitive strategies accounted for small changes in shareholder value which, though small, showed that competitive strategies can indeed create shareholder value. Moreover, MLRM also showed that differentiation strategy can create more shareholder value than other competitive strategies as it had the highest beta coefficient, followed by cost leadership and lastly, focus strategy. However, MLRM

also clearly showed that other factors explained more of variations in shareholder value than competitive strategy. On the other hand, descriptive statistics of shareholder value created indicated that firms had successfully created high levels of shareholder value. A general factor analysis revealed the strategies firms may be using to generate high shareholder value as Quality Focused Strategy, Customer Need Focused strategy, Cost Focused Strategy and Unfocused strategy. However, their effect on shareholder value could not be further analysed because the data collected was focused on competitive strategies.

Although the results seem to support the theory by Porter (1985) - and supported by Hill and Jones (1998) - that competitive strategies lead to a firm generating above average returns, they also point out a major weakness in the theory. The associations between competitive strategies and shareholder value though positive and significant, are weak. None of the correlations was above 0.5; hence competitive strategies on their own may not cause a significant change in the shareholder value, unless other factors intervene. Furthermore, weak negative correlation between cost leadership and differentiation strategy indicates that the two strategies may not have a high negative association with each other; hence some firms can explore ways of using the two strategies effectively. This is in support of the argument by De Wit and Meyer (2005) that a firm can achieve cost leadership and differentiation simultaneously and the rewards are great because the benefits are addictive.

RECOMMENDATIONS

Firstly, the paper recommends that firms should adopt competitive strategies to create value rather than not pursuing any of the competitive strategy but not to implement cost leadership strategy and differentiation strategy. Secondly, companies should shift from the most popular strategy of cost leadership and pursue a more effective strategy of differentiation strategy. Therefore, CEOs and CFOs in search of shareholder value creating strategies are advised to implement one of the competitive strategies, but differentiation strategy is highly recommended. Thirdly, a future study should be carried out by strategic management scholars to establish ways in which companies can pursue both cost leadership and differentiation strategy. Since most firms would prefer pursuing more than one strategy, scholars should advice, for example, on the minimum action such as cost reduction that firms can do when pursuing differentiation strategy. Or when pursuing Cost Leadership strategy, scholars should advice on how far a firm should go on issues of quality, R&D, and technological acquisition among others. Such studies may take a form of a case study involving a firm that has shown favourable results despite pursuing more than one strategy. This study may provide an input for such study as descriptive statistics of the major variables showed some firms with high scores of CLSI and DSI but also high level of CBER.

A similar study should be carried out in a different country where most firms do not pursue more than one strategy, using a non-linear regression model to establish the exact relationship between individual competitive strategies and shareholder value. A further study should also be carried out,

in an industry where focus strategy is also common, to establish a significant measure of the relationship between focus strategy and the other competitive strategies. In addition, research should also be carried out to establish suggested strategies of Quality Focused Strategy, Customer Need Focused strategy, Cost Focused Strategy and Unfocused Strategy that the firms might be using to generate high levels of shareholder value. This is necessary since the study showed that competitive strategies alone may not cause a significant change in shareholder value yet companies were generating high levels of shareholder value. Therefore, strategists must find out the actual strategies being pursued by the companies and hence the suggested strategies may be used as the starting point.

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