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Research Article

Cost Leadership Strategy and Performance of Tea Factories in Kisii and Nyamira Counties in Kenya

***[a]Calleb Nyangaresi Nyangari and [b]Dennis Juma**

[a&b]Department of Business Administration (Strategic Management Option), Jomo Kenyatta University of Agriculture and Technology, P.O. Box 62000–00200 Nairobi, Kenya
*Corresponding Author Email: nyangaric@gmail.com

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Abstract
Competitive strategy was an important area of strategy that stemmed from the understanding of the influence of competition and industry attractiveness on the performance of the firm. Learning how organizations used competitive strategies as a tool for success had been a core issue in strategic management. A firm's competitive strategies were what made it better than the competition. Competitive strategies could be applied in businesses, employees, and even countries. The central objective of the study was to assess the effect of differentiation strategies on the performance of tea factories operating within Nyamira and Kisii Counties. The study was based on Michael Porter's generic business strategies theory. Both qualitative and quantitative data were collected. The study population was 406 and the Yamane formula for sample size determination was used to select 201 respondents. The study revealed that various cost-reduction strategies differentiation strategy; focus strategy and technology adoption had significant effects on performance. The study concludes that cost leadership strategies have a significant positive effect on performance. The study recommends that the Kenya Tea Development Authority should advocate for and implement supportive policies aimed at reducing operational input costs for tea factories in Kisii and Nyamira counties. This can be achieved through targeted interventions such as granting tax waivers on essential imports like fertilizers, machinery, and agrochemicals; introducing subsidized or lower-cost energy solutions specifically for the tea manufacturing sector; and negotiating for favourable tariffs on key utilities. The study recommends that tea companies should implement rigorous internal cost control programs and conduct regular efficiency audits for instance, establish dedicated cost management units to systematically monitor expenditures, identify wastage, and enforce accountability at every production stage. Regular audits should be institutionalized to uncover inefficiencies, benchmark performance against industry best practices, and inform strategic adjustments.
Keywords: Cost Leadership Strategy, Performance of Tea Factories, Managers, Strategic Management.

Introduction

In today's dynamic business landscape, organizations are compelled to make intricate decisions necessitating robust competitive strategic management to secure and sustain market leadership. Muogbo (2013) emphasizes that such an environment drives firms to adopt strategic management practices that are both competitive and adaptive. Dilini (2021), in a study focusing on Bogawantalawa Tea Estate PLC, highlights critical internal challenges that have significantly impeded the successful execution of strategic plans, thereby affecting the organization's overall performance. The study identifies leadership deficiencies, a deeply rooted traditional corporate culture, and the absence of strategically experienced human resource personnel as the primary obstacles. These factors collectively create an environment resistant to change and innovation, undermining efforts to implement forward-looking strategies effectively.

Herath and De Silva (2022) found that Sri Lankan tea producers have carved a niche through branding, innovation, and targeted marketing. These efforts have helped to create distinct identities in global markets. Incorporating sustainability and fair-trade practices has enhanced this uniqueness. Such ethical strategies attract conscious consumers. Overall, value addition has positioned Sri Lankan tea more favourably internationally. Kpurunee *et al.,* (2023) investigated the relationship between competitive strategies and organizational performance in Nigerian corporate enterprises. The study concluded that the adoption of

appropriate competitive strategies is essential for enhancing profitability, customer satisfaction, and overall organizational performance. The authors recommend that firms invest in customer relationship management and leverage technology to improve efficiency. A study by Muli *et al.,* (2022) investigated the impact of risk assessment strategies on the financial stability of Ugandan tea producers. Utilizing Decision Theory, the research involved 75 executives from tea companies and found that comprehensive risk management strategies enhanced profit margins by 20%. The study emphasized the importance of improving financial forecasting tools and risk mitigation measures to increase profit margins and recommended regular reviews of market trends to better anticipate risks.

Nyaribo and Kariuki (2025) conducted a study examining the impact of total quality management (TQM) on the competitive advantage of tea processing companies in Kenya. Their research identified four key TQM components-leadership competency, employee involvement, customer focus, and continuous improvement-as significant contributors to enhancing the competitiveness of these firms. Utilizing a descriptive research design, they surveyed department heads across all 54 Kenya Tea Development Agency (KTDA) factories, employing structured questionnaires and analyzing the data with SPSS. The findings revealed that each TQM element had a statistically significant positive effect on competitive advantage, with continuous improvement showing the strongest influence ($\beta = 0.226$; $P<0.05$).

Omosa *et al.,* (2022) conducted a study to examine the impact of product development strategies on the performance of tea factories in Kenya, particularly those managed by the Kenya Tea Development Agency (KTDA). Utilizing the Ansoff Matrix and Agency Theory as theoretical frameworks, the researchers employed a descriptive research design, collecting data from 364 respondents across Kisii and Kericho Highlands regions. The study's findings revealed a strong, positive, and statistically significant relationship between product development strategies and firm performance, with a correlation coefficient of $r = 0.716$ ($p < 0.05$). The analysis indicated that implementing product development strategies enabled tea factories to adapt to evolving consumer preferences, enhance competitiveness, and expand their market share. The study concluded that adopting such strategies is crucial for tea factories aiming to improve performance and maintain a competitive edge in the dynamic tea industry.

Objective of the Study

The objective of the study was to assess the effect of cost leadership strategy on performance of tea factories in Kisii and Nyamira counties in Kenya.

Theoretical Framework

This model was described by Michael Porter in 1980. Porter's generic strategies described how a company pursued competitive advantage across its chosen market scope. There were three/four generic strategies: either lower cost, differentiated, or focus. A company chose to pursue one of two types of competitive advantage, either via lower costs than its competition or by differentiating itself along dimensions valued by customers to command a higher price. A company also chose one of two types of scope: either focus (offering its products to selected segments of the market) or industry-wide, offering its product across many market segments.

Cost leadership as a strategy was used by firms that targeted broad markets. Firms undertaking cost leadership strategy acquired cost advantage by improving processes, increasing efficiency, and gaining access to lower production or material costs either through vertical integration or adopting optimal outsourcing (Porter, 1998; Johnson *et al.,* 2005). Differentiation, as the second generic strategy, allowed a firm to offer unique products or services at a premium price pegged on the value added. The value added was usually a perception of the products by the buyers. The added value and utility of that product, as perceived by the buyer, enabled the product to be differentiated at a cost that covered the extra value or features in it.

Firms that adopted this strategy gained a high degree of customer loyalty, which in turn discouraged competing firms from attempting to compete directly with them. This strategy, however, could cause firms to achieve low volumes of production and customer numbers. It was characterized by lower bargaining power of suppliers though, and this meant that the firm tended to pass higher costs to customers since there was not much choice of substitutes for the product or service. This became disadvantageous to customers who had no choice but to buy at the price set by the firm (Barney and Hesterly, 2007; Johnson *et al.,* 2005). In summary, Porter argued that firms were able to succeed in adopting multiple strategies by creating separate business units for each of the above strategies since customers often sought multidimensional attributes of a

product to derive maximum utility. These could be a mix of quality, convenience, price, and style, among other features of a product or service. The application of this theory by tea factories was likely to steer their competitiveness to ensure their performance in the market.

Literature Review

The study by Dutse and Aliyu (2019) examined the relationship between cost leadership strategy, market orientation, and performance of manufacturing SMEs in Nigeria, focusing on a different economic context and industry. As a researcher, I noted that while the study provided insights into SMEs, it did not address large-scale agricultural processing firms such as tea factories, nor did it consider regional dynamics in Kenya. The geographical and sectoral differences limited the applicability of its findings to the tea industry in Kisii and Nyamira counties. Additionally, the study overlooked the influence of localized cost factors unique to the Kenyan tea sector. This created a research gap on how cost leadership strategy specifically affects the performance of tea factories in the Kenyan context.

Wairimu and Kiru (2020) focused on the influence of cost leadership strategy on tea processing factories in Murang'a County using a descriptive survey design and targeting nine factories. However, their study was limited to a different geographical context and did not consider tea factories in Kisii and Nyamira counties, which may have unique operational challenges and cost structures. Additionally, the study lacked a comparative analysis across counties, limiting the generalizability of the findings. This created a gap for further research to explore the effect of cost leadership strategy on performance specifically within the context of Kisii and Nyamira counties.

Njuguna and Waithaka (2020) examined the effect of cost leadership strategy on performance but limited their focus to insurance firms in Nyeri County, excluding manufacturing sectors like tea factories. Their reliance on purposive sampling and focus on non-financial performance indicators may have restricted the generalizability of findings across industries and geographical areas. Furthermore, the study did not consider agricultural-based firms, leaving a contextual and sectoral gap. This created a research gap in understanding how cost leadership strategies influence performance in agro-processing industries, particularly tea factories in Kisii and Nyamira counties.

Research Methodology

Research design served as a structured approach for investigating the particular issues of interest in a study (Bloomfield and Fisher, 2019). It integrated various components and methods related to data collection and analysis. For the proposed study, a survey correlational research design was used. The design enabled the researcher to gather quantitative data through a questionnaire as the primary tool for data collection. The population of the study was drawn from all the 14 tea factories under KTDA in Kisii and Nyamira. The factories were managed by KTDA and comprised of the following: Kiamokama, Nyamache, Itumbe, Rianyamwamu, Eberege, Ogembo, Nyansiongo, Matunwa, Kebirgo, Sanganyi, Gianchore, Tombe, Nyankoba and Sombogo a total of 406 respondents. The Yamane (1967) formula was used to calculate the number of respondents to be sampled hence, 201. Questionnaire were used as the primary tool for data collection.

Before data collection, researcher applied for a research permit from the National Commission for Science, Technology and Innovation (NACOSTI) to allow for data collection. Relevant authorities were sought from the Kenya Tea Development Authority to allow for data collection. A pilot study was carried out in Bomet County, to evaluate questionnaire validity and reliability with a target of 20 respondents. To test for the reliability of the instrument, Cronbach's alpha was used. From the results found, the overall Cronbach's alpha coefficients for all items loaded above 0.71 implying that the internal consistency of the research instrument was excellent and thus reliable. Quantitative data collected was coded, entered into the Statistical Package for Social Sciences (SPSS) then analysed both descriptively, through frequencies, percentages, means and standard deviations where applicable, and through regression analysis.

Findings

Out of the 201 questionnaires dispatched for data collection, 179 were respondent to representing 89.1% response rate on which this study analysis is based. It was vital to describe how descriptive analysis was interpreted. The scale was categorized as follows: 4.3–5 denoting Strongly Agree, 3.5–4.2 indicating Agree, 2.5–3.4 representing Undecided, 1.9–2.4 for Disagree, and 1–1.8 reflecting Strongly Disagree (Nemoto and Beglar, 2014; Joshi *et al.,* 2015). The study sought to evaluate the effect of cost leadership strategy on performance of tea factories in Kisii and Nyamira Counties, Kenya. The results were recorded in Table 1. The

data provides insight into the implementation of a cost leadership strategy among tea factories in Kisii and Nyamira Counties, focusing on cost reduction, energy efficiency, and operational improvements.

Table 1. Cost leadership strategy on performance.

Statements	N	Minimum	Maximum	Mean	Standard deviation
The company has been able to reduce production cost per kilogram significantly over time.	179	1	5	3.17	.899
There are well-defined strategies in place to monitor and control production costs per kilogram.	179	1	5	3.19	.890
The cost of production per kilogram is regularly compared to industry standards to ensure competitiveness.	179	1	5	3.24	.784
The company has successfully implemented energy-saving initiatives that have reduced overall energy costs.	179	1	5	3.20	.885
Energy efficiency practices are integrated into our production processes to minimize energy consumption.	179	1	5	3.15	.910
The company regularly evaluates energy consumption patterns to identify opportunities for cost savings.	179	1	5	3.26	.789
The company continuously improves its operational efficiency to lower costs while maintaining product quality.	179	1	5	3.19	.874
Operational efficiency initiatives have streamlined production processes and reduced unnecessary expenses.	179	1	5	3.25	.805
The company invests in employee training to improve operational efficiency and reduce operational costs.	179	1	5	3.25	.823

Table 1 revealed that efforts to reduce production costs over time (mean = 3.17) and strategies to monitor and control these costs (mean = 3.19) suggest some progress, though there is potential for further optimization. Regular benchmarking against industry standards (mean = 3.24) highlights an emphasis on maintaining competitiveness.

Energy-saving initiatives (mean = 3.20) and the integration of energy-efficient practices (mean = 3.15) underline a commitment to reducing energy costs, with regular evaluations of consumption patterns (mean = 3.26) emerging as a notable strength. Operational efficiency improvements (mean = 3.19) and streamlined processes (mean = 3.25) further reflect efforts to minimize unnecessary expenses while maintaining quality. Investment in employee training to enhance operational efficiency and reduce costs (mean = 3.25) showcases the importance of human capital in achieving cost leadership.

The standard deviations, ranging from 0.784 to 0.910, suggest a relatively consistent perception among respondents regarding these strategies. Overall, while the data highlights clear initiatives aligned with cost leadership, the moderate mean values indicate that these practices may not be fully optimized or uniformly applied. Enhancing the implementation and impact of these strategies could further strengthen cost competitiveness in the tea industry within these counties.

Regression Analysis

The study sought to evaluate the effect of cost leadership strategy on organizational performance, focusing on its implementation and impact among tea factories in Kisii and Nyamira Counties. The findings were recorded in Table 2 and interpreted thereafter.

The ANOVA results presented in Table 2 examine the relationship between cost leadership strategy (CLS) and performance (P). The regression sum of squares is 93.047, with 1 degree of freedom, and the residual

sum of squares is 6.448, with 178 degrees of freedom. The total sum of squares is 99.495, which is the sum of the regression and residual sums of squares. The F-statistic is 1954.064, which is quite large, suggesting a strong relationship between cost leadership strategy and performance. The significance value (Sig.) is 0.000, which is less than the conventional alpha level of 0.05, indicating that the relationship between cost leadership strategy and performance is statistically significant. This suggests that cost leadership strategy has a significant impact on performance.

Table 2. ANOVA for cost leadership strategy and performance.

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	93.047	1	93.047	1954.064	.000[b]
	Residual	6.448	177	.048	-	-
	Total	99.495	178	-	-	-
a. Dependent variable: Performance						
b. Predictors: (Constant), Cost leadership strategy						

Table 3. Model summary for cost leadership strategy and performance.

Model	R	R-square	Adjusted R-square	Standard error of the estimate	Durbin-Watson
1	.966[a]	.945	.934	.21937	1.926
a. Predictors: (Constant), Cost leadership strategy					
b. Dependent variable: Performance					

The model summary in Table 3 shows a strong positive relationship between cost leadership strategy (CLS) and performance (P), as indicated by the high correlation coefficient (R) of 0.966. This suggests that as the cost leadership strategy is effectively implemented, there is a corresponding improvement in performance. The R square value of 0.945 implies that approximately 94.5% of the variation in performance can be explained by the cost leadership strategy alone, highlighting a very high level of explanatory power of the model. The adjusted R square, slightly lower at 0.934, confirms the model's robustness while adjusting for the number of predictors used. The standard error of the estimate is relatively low at 0.21937, indicating that the model's predictions are close to the actual observed values. The Durbin-Watson statistic of 1.926 is close to the ideal value of 2, suggesting that there is no significant autocorrelation in the residuals, and thus the assumption of independent errors is reasonably satisfied.

Table 4. Regression coefficients for cost leadership strategy and performance.

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Standard error	Beta		
1	(Constant)	.083	.096	-	.850	.001
	Cost leadership strategy	.994	.0249	.967	44.200	.000
a. Dependent variable: Performance						

Table 4 provides regression coefficients, t-statistics, and significance values, showing the relationship between cost leadership strategy (CLS) and performance (P). The unstandardized coefficient for CLS (B = 0.994) indicates that a one-unit increase in CLS leads to a 0.994-unit increase in performance. The standardized coefficient (Beta = 0.967) further confirms a strong positive relationship between CLS and P.

The t-statistic for CLS (44.200) is very high, indicating the predictor's strong effect on the dependent variable. The associated significance value (Sig. = .000) is well below the conventional threshold of 0.05, confirming that the effect of CLS on performance is statistically significant. This allows us to reject the null hypothesis (which assumes no relationship between CLS and P) in favor of the alternative hypothesis, which posits a significant positive relationship. The constant term (B = 0.083) represents the baseline performance when CLS is zero. Its t-statistic (0.850) and significance value (Sig. = .001) suggest it is statistically significant, but its effect is minimal compared to CLS. Overall, the analysis demonstrates that cost leadership strategy is a significant and impactful predictor of performance in tea factories in the study area.

This study findings are in agreement with a study done by Dutse and Aliyu (2019) and examined the relationship between cost leadership strategy, market orientation, and performance of manufacturing SMEs

in Nigeria, focusing on a different economic context and industry hence, a significant positive effect on market orientation. The study is also in agreement with a study by Wairimu and Kiru (2020) who focused on the influence of cost leadership strategy on tea processing factories in Murang'a County using a descriptive survey design and targeting nine factories and established that cost leadership strategy indeed had a significant positive effect on performance of the tea companies in Muranga County. Further, the study findings are in line with a study by Njuguna and Waithaka (2020) who examined the effect of cost leadership strategy on performance but limited their focus to insurance firms in Nyeri County hence finding that cost leadership strategy had significant positive effect of performance.

Conclusion

The study concludes that cost leadership strategy is a key driver of performance in tea factories within the study area.

Recommendations

To stimulate innovation and competitiveness among tea factories in Kisii and Nyamira counties:

- ☞ The government should introduce targeted tax incentives and grants for firms that invest in the development of differentiated products and value-added services. Such incentives would lower the financial barriers associated with product diversification, encourage research and development, and enable factories to move beyond traditional bulk tea production into premium, specialty, and branded tea products.
- ☞ To foster economic growth and enhance competitiveness, it is crucial to establish innovation hubs within tea factories in Kisii and Nyamira counties. These hubs would serve as centres for research and development, enabling local tea factories to experiment with new product ideas, such as specialty teas, value-added products, and eco-friendly packaging solutions.

Declarations

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