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Effect of Organizational Structure on the Relationship between Porter's Generic Strategies and Performance of Financial Institutions in Turkana Central Sub-County, Kenya

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Abstract: The performance of financial institutions (PFI) has been declining and very few financial institutions have experienced a marginal upward trend in their performance. This study sought to investigate the influence of Porter's Generic Strategies on the PFI in Turkana Central Sub-County, Kenya. The study sought to evaluate the influence of organizational structure on the relationship between porters' generic strategies and performance of financial institutions in Turkana Central Sub-County. This study was anchored on the Resource Based View Theory and Theory of Financial Intermediation. The study employed a correlational research design. The target population consisted of 27 respondents drawn from seven (7) Financial Institutions in Turkana Central Sub-County. It was construed that the influence of organizational structure on the relationship between Porter's Generic Strategies and PFI as the moderator led to the overall (average) regression coefficient (B) to change from 0.553 from 0.447. It was recommended that organizations should improve on their organizational structure to facilitate decision making process and communication making it fair, equitable and effective. The findings of the study would go a long way in helping the financial institutions in Turkana Central Sub-County to improve their performance through sound and robust generic strategies.

Keywords: Organizational Structure, Porter's Generic Strategies, Performance of Financial Institutions, Turkana Central Sub-County

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1. Introduction

Porter wrote in 1980 that companies have to make choices about their scope and the type of competitive advantage they seek to achieve, whether lower cost or differentiation. The idea of strategy targeting particular industries and customers (that is, competitive positions) with a differentiated offering was a departure from the experience-curve influenced strategy paradigm, which was focused on larger scale and lower cost [1]. Porter revised the strategy paradigm again in 1985, writing that superior performance of the processes and activities performed by organizations as part of their value chain is the foundation of competitive advantage, thereby outlining a process view of strategy [2].

Sustainable competitive advantage emerges as the central foundation for long run firm performance. A firm's competitive advantage can take two dimensions; low cost or differentiation. As such, the two dimensions of competitive advantage pooled with the scope of actions from which a firm seeks to realize

them, lead to three generic strategies for achieving and surpassing the industry average performance. The competitive strategies are cost leadership, differentiation, and focus. Essentially, the focus strategy has two variants namely; focus cost and focus differentiation [3].

2. Literature Review

The major studies of strategic management carried out in Nigeria by Oyedijo & Akinlabi (2004) and Akingbade (2007) [4,5] have found support for the strategic management and corporate performance hypothesis. For instance, their studies revealed that SMEs corporate financial performance tends to increase with a unit increase in the level of practice of strategic management. The higher the overall level of strategic management practice by SMEs, the higher the financial performance of the SMEs expressed in terms of earnings per share, profit before tax, return on capital employed, net asset, current or working capital ratio, increase in relative market share, continuing addition of new products and products lines, and total deposits. For all the financial performance indicators used, performance tended to increase significantly as the level (or degree of sophistication) of strategic management increased.

Munyiri (2014) [6] examined competitive strategies and customer retention among commercial banks in Kenya and concluded that the banks adopt differentiation strategies by offering superior goods and services of high quality to their customers. This study too was on commercial banks and based its competitive strategy on customer retention which is a different dependent variable from the ones to be studied in this study.

Munyiri (2014) [6] studied competitive strategies and customer retention among commercial banks in Kenya. This study sought to establish the extent to which competitive strategies influenced customer retention. The study adopted a descriptive survey design and targeted all the forty four registered commercial banks in Kenya. The data was collected using questionnaires using the drop and pick later method. The study concluded that there was a significant relationship between cost leadership strategies and customer retention. In addition, banks used low prices of the bank products to target average customers and also developed new products that met the market demands. The banks also adopted differentiation strategies by offering superior goods and services of high quality to their customers. On focus strategy, banks had developed products that targeted a particular market segment and there was a measurable relationship between customer satisfaction and customer retention in banks. This study concentrated on commercial banks whose challenges are different from the public service vehicles industry therefore making it difficult to apply its findings for the context of this study.

In another study, Ndunge (2012) [7] examined response strategies to challenges of competition by horticultural export firms in Kenya. The objectives of the study were; to establish the challenges of competition facing the horticultural export firms in Kenya, and to determine the response strategies adopted by the horticultural export firms in Kenya to cope with challenges of competition. The study established that horticultural export firms in Kenya are being faced by several challenges including: rivalry within the industry, competition for source of suppliers, competition for warehousing facilities and competition for channels of distribution. Firms must address these challenges to deal with competition from their rivals in the industry. The study however established that firms are using several strategies to deal with competition which include: Turn around strategies an all-round strategy dealing with competition, product diversification, new market penetration, e-marketing of the company's products, investing in packaging and product differentiation, target market, out-sourcing of services, differentiating strategies, refocusing the business and enlarged branch network worldwide. This study reviewed the horticulture industry which faces different challenges from the ones in the transport sector therefore its findings may not apply in the case of this study.

Mwangi and Ombui (2013) [8] examined the effects of competitive strategies on the performance of mission hospitals in Kenya using a case of Kijabe Mission Hospital. These competitive strategies include marketing portfolios with adequate human and capital resources, social responsibility activities, brand images, convenience retailing, market share position and length of time in the industry. The study concludes that cost leadership had the greatest effect on the performance of the mission hospitals, followed by product/market development strategies, then market focus while differentiation had the least effect on the performance of the mission hospitals.

Pertusa-Ortega, Molina-Azorín and Claver-Cortés (2008) [9] carried out a study on the competitive strategies and firm performance: a comparative analysis of pure, hybrid and 'stuck-in-the-middle' strategies

in Spanish firms. The findings show that a large number of the organizations use different types of hybrid strategies and also that such strategies tend to be associated with higher levels of firm performance, particularly those strategies which place emphasis on a greater number of strategic dimensions, and specifically on innovation differentiation.

Olson and Slater (2015) [10] studied the balanced scorecard, competitive strategy, and performance. It is noted that different product-market strategies have different requirements for success. Just as organizational structures and processes are tailored to assist in implementing a chosen strategy, so too should the performance emphasis be adopted by a firm. The logic of this approach underlies the reason why many managers have adopted a balanced scorecard approach to measuring performance. But balance implies that all measures are equally important in all settings. The researchers endorse the multi-measure approach to understanding company performance, but challenge the idea that all measures are equally important irrespective of the product-market strategy adopted.

3. Methods

The study was carried out in Turkana Central Sub-County. This study adopted correlational research design. The target population of this study consisted of seven (7) Managers, seven (7) Assistant Managers, seven (7) Operational Managers, three (3) Retail Bankers and three (3) Service Quality Compliance Managers, drawn from seven (7) Financial Institutions in Turkana Central Sub-County. Purposive sampling would be used to select all the seven (7) Managers, seven (7) Assistant Managers, seven (7) Operational Managers, three (3) Retail Bankers and three (3) Service Quality Compliance Managers, drawn from seven (7) financial institutions in Turkana Central Sub-County, hence forming a census study. Purposive sampling is used in this study to aid the researcher focus on particular characteristics of a population that are of interest (personal in management who are involved and have good understanding of Porter's Generic Strategies on PFI in Turkana Central Sub-County) and which would best enable the researcher to respond appropriately to the questions in the questionnaires. The primary data would be collected using self-administered questionnaires to the 27 respondents. Questionnaires provide a relatively cheap, quick and efficient way of obtaining large amounts of information from a large sample of people. Data could be collected relatively quickly because the researcher would not need to be present when the questionnaires were completed.

The researcher acquired the relevant authorization from National Commission for Science Technology and Innovation and the Kibabii University School of Graduate Studies. Research Assistants helped in administration of the questionnaires. A pilot test would be carried out from one (1) Manager, one (1) Assistant Manager and one (1) Operational Manager from one financial institution to check for validity. Reliability analysis results were above the threshold of 0.7 ($\alpha = 0.8484$), signifying that the instruments were reliable during data analysis. The researcher used expert judgment to determine the content validity of the research instruments. The determination of content validity was primarily judgmental and intuitive. The researcher also used a panel of persons who judged how well the instrument met the standard. The researcher used the suggestions from the supervisors to improve the clarity of the items in the questionnaires for use in this study.

The data collected was analyzed using Statistical Package for Social Sciences (SPSS, version 22) software. The analysis used both inferential and descriptive statistics. Descriptive statistics used frequencies, percentages, means and standard deviations to present data. Hierarchical regression analyses were used to verify the relationship between independent variables and dependent variables. This was carried out at confidence interval levels of 95%, with level of significance set at 5% ($p < 0.05$). The researcher considered confidentiality, privacy and informed consent of the respondents. Only relevant details that helped in answering the research questions were included. The researcher owed loyalty to the informants and honoured promises associated with the research.

4. Findings and Discussions

Moderated Results of Organizational Structure on the Relationship between Porter's Generic Strategies and PFI The objective sought to determine the influence of organizational structure on the relationship between Porter's Generic Strategies and PFI. Organizational structure was the moderating variable that had four (4) statements based on the five point Likert Scale. To achieve this relationship, the variables for Porter's Strategies and organizational structure were regressed against the mean of PFI and

the results tabulated as shown in Table 1. Its hypothesis stated: H01: There is no significant influence of organizational structure on the relationship between strategic management approaches and financial performance of financial institutions in Turkana Central Sub-County.

Table 1. Moderated Model Summary Results of Organizational Structure on the Relationship between Porter's Generic Strategies and PFI

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					R Square Change	F Change	df1	df2	Sig. Change	F
1	0.778 ^a	0.606	0.420	1.10511	0.606	3.264	8	17	0.019	
2	0.952 ^b	0.906	0.819	0.61730	0.300	10.371	4	13	0.001	

a) Dependent Variable: PFI;
b) Predictors: (Constant), cost leadership strategy, focus strategy, differentiation strategy, Interaction (Porter's Generic Strategies *Organizational Structure)
c) Significance level, $p < 0.05$

Key: Model 1 = unmoderated; Model 2 = moderated

Outcomes from Table 1 signposted that Porter's Generic Strategies in Model 1 contributed significantly ($p < 0.05$) and accounted for 60.6% variation in PFI ($R^2 = 0.606$, R square change = 0.606, F change (8,17) = 3.264, $p < 0.000$). Introduction of the organizational structure to Model 1 explained 30.0% of variation in PFI R square change = 0.300, F change (4,13) = 10.371, $p < 0.000$. Results illustrated that there was significant and positive moderating influence of organizational structure to the Porter's Generic Strategies and PFI in Turkana Central Sub-County. These outcomes implied that if organizational structure could be enhanced in addition to Porter's Generic Strategies, PFI would improve in Turkana Central Sub-County.

Table 2. Moderated ANOVA Results of Organizational Structure on the Relationship between Porter's Generic Strategies and PFI

ANOVA ^a						
Model		Sum of Squares	Df	Average Square	F	Sig.
1	Regression	31.892	8	3.987	3.264	0.019 ^a
	Residual	20.762	17	1.221		
	Total	52.654	25			
2	Regression	47.700	12	3.975	10.431	0.000 ^b
	Residual	4.954	13	0.381		
	Total	52.654	25			

a) Dependent Variable: PFI;
b) Predictors: (Constant), cost leadership strategy, focus strategy, differentiation strategy, Interaction (Porter's Generic Strategies *Organizational Structure)
Significance level, $p < 0.05$

The ANOVA results in Table 2 were used to determine the significance difference of the organizational structure on the relationship between Porter's Generic Strategies and PFI. Results in Table 2 illustrated that organizational structure had positive and significant moderation influence on the relationship between Porter's Generic Strategies and PFI. In model one (1) when organizational structure was not introduced into the model, the influence of Porter's Generic Strategies on PFI was significant at $F = 3.264$ (8,17) and $p = 0.019$. In

model two (2), when organizational structure was introduced in the model of Porter’s Generic Strategies and PFI, it was still found to be positive and statistically significant (F= 10.431 (12,13) , p=0.000).

This implied that when there is continued improvement in the organizational structure in an organization in addition to the prevailing Porter’s Generic Strategies in the PFI, there would be an increase in PFI. In the test criterion, the null hypothesis (H04) was rejected since the p<0.05 and there was a significant and positive moderating influence of organizational structure on the relationship between Porter’s Generic Strategies and PFI.

Table 3. Moderated Multiple Regression Results of Organizational Structure on the Relationship between Porter’s Generic Strategies and PFI

Model Summary					
Models		Unstandardized Coefficients	Standardized Coefficients	Beta	Sig.
		B	Std. Error		
1	Constant	3.827	1.395		0.014
	Cost Leadership Strategy	0.448	0.229	0.433	0.000
	Focus Strategy	0.557	0.173	0.444	0.000
	Differentiation Strategy	0.654	0.000	0.506	0.050
	Interaction Term (Porter’s Generic Strategies *Organizational Structure)	0.447	0.000	0.452	0.000

Average B-regression coefficient = 0.448+0.557+0.654 = 0.553 The test model is as follows: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_N + \epsilon$

Y=Accumulated average score for PFI

β = beta, the coefficient of the independent variable and moderating variable N= Organizational Structure

X1= Average score for Cost Leadership Strategy

X2= Average score for Focus Strategy

X3= Average score for Differentiation Strategy

X4= Average for Interaction (Porter’s Generic Strategies *Organizational Structure)

ϵ =error term

The above equation becomes:

$$Y = 3.827 + 0.448X_1 + 0.557X_2 + 0.654X_3 + 0.447X_N \dots \dots \dots \text{Eq. 1}$$

From equation 1, it was construed that the organizational structure on the relationship between Porter’s Generic Strategies and PFI as the moderator led to the overall (average) regression coefficient (B) to change from 0.553 from 0.447. Therefore, the influence of the moderator (organizational structure) seems to reduce the influence of Porter’s Generic Strategies on PFI. This would confirm the validity of the moderation influence of the organizational structure on the relationship between Porter’s Generic Strategies and PFI. (Table 3)

5. Conclusions and Recommendations

In conclusion, this study revealed that the organizational structure exerted a significant influence on the relationship between Porter’s Generic Strategies and the performance of financial institutions. The analysis demonstrated a significant effect on the overall regression coefficient (B), which shifted from 0.553 to 0.447 after accounting for the effect of organizational structure. The findings suggest that the alignment and design of an organization’s structure can either enhance or hinder the effectiveness of implementing Porter’s Generic Strategies to improve performance. It implies that organizations need to carefully consider their structural configurations to optimize the outcomes of strategic choices. The observed change in the regression coefficient indicates that organizational structure acts as a moderating variable, influencing the strength and nature of the relationship between Porter’s Generic Strategies and performance. This highlights the importance of considering the internal organizational context when formulating and implementing strategic approaches.

Furthermore, this study emphasizes the need for financial institutions to assess and adapt their organizational structures to align with their chosen strategies. A well-designed structure can facilitate the effective implementation of strategies and enhance performance outcomes.

These findings have practical implications for financial institutions seeking to improve their performance through the application of Porter's Generic Strategies. Through considering the interplay between strategy and organizational structure, managers can make informed decisions about how to optimize their organizational design to support the desired strategic direction.

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Conflicts of Interest: Write conflict of interests or write "The authors declare that they do not have any conflict of interests."

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