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Effects of Competition on Performance in Engineering Industry – A Case Study of Holman BrothersEast Africa Limited.

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Abstract

This paper is anchored on the study carried out to establish the factors affecting performance – case of Holman Brothers (E.A) Ltd. It investigated several factors like marketing strategy; capital structure; competition; and quality products and services. This paper however will concentrate on competition as one of the investigated factor. Competition is critical in the market as will involve the evaluation of magnitude of competition in the firm's industry, both the number of competing firms and their relative strengths in the market place. The study adopted a descriptive survey research design which describes the characteristics of particular individuals and was not restricted to fact finding but results in formulation of important principles of knowledge and solutions to significant problem. The study population included all employees of Holman Brothers (E.A) Ltd working in Head office and its branches, while the target population consisted of 313 employees comprising of 263 males and 50 females, working in 11 different departments. The sample size of 37% constituted 116 respondents. The study adopted questionnaires and interviews as research instruments, which were clear, simple to understand, unbiased and objective. The researcher used Statistical Package for Social Science (SPSS) to analyze data.The study found that competitive strategies such as pricing, promotions and innovations determine the companies' performance in the market. The study recommended that the Government through Ministry of Trade createconducive environment which promotes fair competition among the companies.

Key words: Pricing, Promotion, Innovation, Market Performance, Construction Industry

1. Introduction

Companies and Small Medium Enterprises are now under intense pressure to improve business performance. In the Internet era expectations have risen sky-high and customers want immediate response to orders, service requests, knowledgeable service, customer support, turn-around time and detailed information delivered on demand (Frank, 2008). Meanwhile, intensified global competition puts continuous pressure on costs and efficiency. Business performance entails the overall business and determining how it can better reach its goals (Fergus, 2008). This requires the alignment of strategic objectives and the business sets of activities in order to manage performance. Business seeks to aggregate available information and the managers are more informed about the company's position and are able to make better decisions.

Business performance also involves assessment of an employee, process, equipment or other factors to gauge progress toward predetermined goals (Armstrong, 2006). In business performance there are goals and objectives which are observable and measurable and the end results will be achieved within a more or less fixed time frame. It involves planning for the future success of the business and focusing on specific markets and targeted customers (Jeffrey, 2004). Strategies are important in business performance as they seek to address fundamental business questions such as; what to sell? Who to sell to? How will customers be acquired? What price will we charge? And how will we produce, deliver and service what we sell? In business performance management involve; effectively communication, company aligned goals, evaluate employee performance and reward them fairly. Clear goal planning, skill development and a fair pay for performance culture are talent management practices that successful companies use to demonstrate their employees are valued (Robbins, 2002). Effective performance and talent management has been proven to increase employee morale and overall productivity since productive employees are essential to any company. The rising costs, increased competition and time necessary to hire and train new talent have made retention of your top performing employees imperative to the bottom line (Howard, 2008). Recognizing gaps and developing skills enables managers to properly map out succession plans while employees develop attainable career paths. In order for an organization to measure performance and make judgment about it effectiveness range of performance indicators are required (William, 1998).

The measures may include; contribution to the achievement of strategic objectives, measures of quality volume, measures of efficiency and value for money and measures of external and internal customer satisfaction. Performance of an organization is the outcome of individuals and units of the organization (Jeffrey, 2004). Organizations can either influence or control all factors affecting the performance of individuals and units through formal and informal means. Some of the formal means of controlling units' activities are structure, operating manuals, standard operating procedures, charters and budgets. Greater influence on individuals can be exercised informally through communication, work culture and management (Anthony &Rajan, 2000).

Managers of business organizations are under constant pressure to improve performance within their organizations. They are expected to satisfy the various stakeholders, increase efficiency effectiveness and quality to organizational goals, results, to establish a culture of continuous improvement change and distinct service orientation. Strategies for managing performance aim to achieve increased organizational effectiveness, better results for individuals and teams and higher levels of skill, competence, commitment and motivation. Managing performance is a continuous responsibility for management should be incorporated into the daily routine for managers. Employees are responsible for managing their own performance but may need guidance and support (Armstrong, 2006). Holman Brothers (E.A) Ltd is an Engineering Company incorporated in Kenya and located in Industrial Area with subsidiary branches in Nakuru, Naivasha, Eldoret, Kisumu, Bungoma, Muranga, Nyeri, Meru and Mombasa.

2. Statement of the problem

Bergman, Garrison, Scott, Gregory and Bruce (2002) argues that to gauge the effectiveness of a strategy, a business should benchmark its performance versus its own set standards, its sector of business, specific competitors, high performance firms and the prior actions of the firms. They further argue that a good measuring tool for measuring performance is through assessing the quality of services offered to customers. The importance of private sectors in the economy include; jobs creation; entrepreneurial opportunities; generate revenue to the Government through taxes; offer corporate social responsibility where it involves voluntary actions that the company takes through their core business activities in policy dialogue that are explicitly managed to have positive impact in the society while also benefiting the company directly or indirectly; offer variety of products and services to the customers (Winkler, 2005). In Kenya, private sector play a key role in economic growth, creation of employment opportunities, corporate social responsibility, raising the standards of living of its employees, provide market for products and services produced locally and international (KEPSA, 2008). The Government contribution to promote private sectors include; enhancing conducive working environment through security measures for instance, installation of CCTV cameras within the central business area, police patrols; provision of modern infrastructures in transportation network, communication and information technology; formation of regulatory bodies to safeguard the interest of investors and consumers against counterfeit goods example Kenya Bureau of Standard and Communication Commission of Kenya (KEPSA, 2008). The Government has also provided incentives for entrepreneurship and investment for capital goods by lowering their taxes which motivate local and foreign investors carry out business in Kenya. These initiatives lower the risks and cost of doing business in Kenya, provide greater access to productive resources, availability of raw material (KAM, 2008). The performance, survival and sustainability of any business depend solely on its ability to meet its objectives which includes turnover and profit both in the long and short terms.

Holman Brothers (E.A) Ltd is one of the private businesses operating in Kenya and deals with sales and maintenance of farm earthmoving equipment, construction equipment and diesel power generators. The equipment includes; the tractors, wheel loaders, graders, shovel, combine harvester, compressors and generators. The management of Holman Brothers (E.A) Ltd has already introduced motivational incentives through commissions, bonus and training to its employees who work very hard in achieving the company's targets in performance. In Kenya most farmers use too much of the labour intensive than capital intensive. Holman Brothers Ltd ranges of products like farming machineries are highly capital intensive which increase productivity and efficiency in the farming sector. Farming methods in Kenya are expected to be highly capital intensive than labour intensive in order to increase food productivity in attaining Vision (2030) goals.

Holman Brothers (E.A) Ltd has developed solutions to capital intensive method of farming through modern farming equipment and machineries. Tidema, Down, Tracia, Egon and Capron (1997) observes that private businesses do not operate in a vacuum as they operate in the market place, where their problem is not just to match the wants of consumers to the capabilities of the firm cut also to pay attention to the factors beyond and their control like competition, changing social patterns and pressure and other external environmental forces. According to information reflected in Holman Brothers (E.A) Ltd audited accounts (2010), there has been a decrease in sales and revenues. The company has made some deliberate efforts to provide products and services readily available on their showrooms and sales counters. Even with these efforts, customer satisfaction continues to decline at an alarming rate, poor marketing strategy and employees' turnover is also high and the trend is against the goals, visions, and missions of the Organization (Holman audited report, 2011). This study, therefore, sought to establish the factors that affect performance of Holman Brothers (E.A) limited.

3. Scope of the study

The study was limited to the factors affecting the performance in Holman Brothers (E.A) Ltd. The target population was 313 respondents working in different departments from head office in Nairobi and subsidiary branches in Nakuru, Naivasha, Eldoret, Bungoma, Mombasa, Kisumu, Meru, Muranga and Nyeri.

4. Business Performance

Performance is the accumulated end results of' all the organization's work process and activities. It is a complex but important concept and managers need to understand the factors that contribute to high organizational performance. They want their organization work units or work groups to achieve high levels of performance no matter what mission, strategies or goals are being pursued (Robbins and Coutler, 2000). A performance baseline integrating all organizational activity communicates the organization's game plan and clearly establishes accountability for results.Variance analysis enables timely, more effective corrective action and strong management control.Effective performance measurement shows executives where to focus their efforts and set priorities. This enables proactive management and time for strategic thinking (Collins, Jack & William, 2002) Performance is the outcome of work as it provides the strongest linkage to the strategic goals of the company and customer satisfaction (Bernadit, Eric, Roliana and Smith, 1995). He says that performance measures should be set up when setting objectives and they should be specific, measurable, attainable and reliable and time bound.

Armstrong (2006) however states that performance measures should be evidence by whether or not the intended results have been achieved and the extent to which the job holder has produced results. Such performance measures can be in finance (volume, returns, Costs impact, customer service and quality) or even time (speed, turn around delivery, lead time). Performance indicators are quantifiable measurements, agreed, reflect the critical success factors of an organization and will differ depending on the organization. A business may have as one of its key performance indicators as the percentage of its income that comes from return customers. Whatever key performance indicators are selected, they must reflect the organization's goals, they must be keys to its success and they must he quantifiable. Key Performance Indicators usually are long-term considerations and the definition of what they are and how they are measured do not change often. The goals for a particular Key Performance Indicator may change as the organization's goals change, or as it gets closer to achieving a goal. The performance of a small enterprise is critical to its competitiveness because due to its size, any small dip in performance can have detrimental effects than would be the case for bigger ones. Rice, Carvajal, Geen, Trist and Cherns (2000) points out that there are possible internal and external factors that can affect the competitiveness hence performance of small and medium enterprises relative to larger ones. To increase its competitiveness small firms improve the internal factors and/or make the external factors more favorable. The internal factors are the knowledge and capabilities of the managers and their knowledge about technologies, marketing and management.

External factors include prices, reliability of supply, availability cost of finance, illegal trade practices by big players and Government support. Objectives that need to be set in terms of performance are sales, marketing shares, growth, productivity, quality and reliability as well as social responsibility. Sales include turn over, trends and achievement of targets. Market share is the proportion of the category market that is taken by particular firm's goods. Trends refer to the way business is performing month to month, quarter by quarter or year by year. Quality and reliability measures include number of goods returned, customer complaints and customer feedback (Lucey, 2000).

5. Competition

Competitors are organizations that produce goods and services that are similar to a particular organization. In other words, competitors are organization's that are looking for the same customers. Rivalry between existing competitors is a major threat, so is the potential for new competitors to enter the task environment. When new competitors enter in an industry, competition increases and prices decrease (Jones, George, Hill, and Koral, 2003). Competition is critical to participation in the market as will involve the evaluation of magnitude of competition in the firm's industry, both the number of competing firms and their relative strengths in the market place. Ideally a company's marketing and sales programs should be designed to gain a differential advantage over its competitors.

Competition is the ability of an individual or firm to freely enter into business activities. Competition takes place in a free market here the government has little or no control of the activities of the market. Though differentiating factors in the insurance industry is in the quality and promptness of service. This has become increasingly important because most insurance products can he easily' coped and do not remain as a competitive advantage for long. Players have increasingly been investing in technology to enable them provide timely and affordable customer service. Wayne (2004) asserts that for a firm to achieve competitive advantage, it must have three strategies of cost leadership, differentiation and cost focus. In business, organizations try to outperform their rivals in order to grab a greater share of existing demand .As the space and boundaries of business get more crowded, prospects for profits and growth are reduced. In such a situation, competition increases as well as rivalry in the industry. This is as a result of encroachment into each other's customers and market share. Colander (I999) concludes that perfect competition is one of the most central factors in a liberalized market. Perfect competition means a market in which there are so many buyers competing with each other such that no single seller or buyer can significantly affect the market price. Cost Leadership Strategy it involves the organization aiming to be the lowest cost producer and/or distributor within their industry. The organization aims to drive cost down for all production elements from the sourcing of materials to labour costs.

To achieve cost leadership a business will usually need large scale production so that they can benefit from economies of scale. Large scale production means that the business will need to appeal to a broad part of the market. A cost leadership business can create a competitive advantage by reducing production costs and therefore increasing the amount of profit made on each sale as the business believes that its brand can command a premium price or by reducing production costs and passing on the cost saving to customers in the hope that it will increase sales and market share.Porter (2002) asserts that businesses can stand out from their competitors by developing a differentiation strategy.In a differentiation strategy the business develops product or service features which are different from competitors and appeal to customers including functionality, customer support and product quality. A differentiation strategy is known as a broad scope strategy because the business is hoping that their business differentiation strategy will appeal to a broad section of the market. New concepts which allow for differentiation can be protected through patents and other intellectual property rights, however patents have a certain life span and organization always face the danger that their idea which gives them a competitive advantage will be copied in a way. Focus (Niche) Strategy a business focuses its effort on one particular segment market and aims to become well known for providing products/services for that segment. They form a competitive advantage by catering for the specific needs and wants of their niche market. Once a firm has decided which market segment they will aim their products at, Porter said they have the option to pursue a cost leadership strategy or a differentiation strategy to suit that segment.

The evaluations of rivalry between competitors help to examine the degree of head competition in an industry. The common reasons for high rivalry include; low industry growth, high exit barriers, undifferentiated supply of products and price war to cover fixed costs. Threat of new entrant is usually based on the market entry barriers which include; economies of scales, capital requirement entry, access to supplies and distribution channels, customer or suppliers' royalty, lack of experience in the industry and legal restrain such as trade barriers. Threat to substitutes products depend on the relative price different between products that can equally satisfy the same basic customer needs. Switching costs also affects the threat of substitutions. Bargaining power of the buyers is determined by concentration and size of the customer and to extend to which the buyer are informed about the other vendors and suppliers and how quickly buyers can identify other sources of supply. The reasons for greater bargaining power include; few buyers, low supplier switching cost, many suppliers, forward integration and backward integration (Porter, 1998). Bargaining power suppliers is when supply and suppliers may eventually be very strong and able to put pressure on the buying company. Reasons for high bargaining power include few suppliers, greater supplier switching costs and forward integrations.

6. Research methodology

The study adopted a descriptive research design which helped the researcher to get more rich and broad information about employees, management and activities of Holman Brothers (E.A) Ltd. Descriptive research design described the characteristics of the management of Holman Brothers (E.A) Ltd and was not restricted to fact finding but may often result in formulation of important principles of knowledge and solutions to significant problems. A research design is the scheme, outline or plan that is used to generate answers to research problems (Orodho, 2003). It constitutes the blueprint for data collection, measurement and analysis of data (Kothari, 2003).

6.1 Research population

The study population involved all the 748 employees in Holman Brother (E.A) Ltd across the country which include; head office in Nairobi and subsidiary branches in Nakuru, Naivasha, Eldoret, Kisumu, Bungoma, Muranga, Nyeri, Meru and Mombasa. The target population was 313 respondents comprising of 263 males and 50 females, working in 11 different departments. A population is a complete set of individuals, cases, or objects with common observable characteristics while the target population refers to that population to which a researcher want to generalize the results of a study (Mugenda&Mugenda, 2003).

6.2 Sampling techniques

The sample size was derived from the employees of Holman Brothers (E.A) Ltd in the eleven departments. The study adopted purposive sampling technique which is non-probabilistic. According to Webster (1985), a sample is a finite part of a statistical population whose properties are studied to gain information about the whole. According to Gregory, (1996) and Mugenda and Mugenda (2003) sample size of respondents can be derived from the formulae below:

$$\mathbf{ss} = \frac{t^2 \times p(1-p)}{m^2}$$

Where

ss= required sample size

t = confidence level at 95% (standard value of 1.96)

p = the proportion of the population having the characteristic been measure. (If proportion is unkown, set p= 0.5 with maximum variability).

m = margin of error at 5% (standard value of 0.05)

pop= the population 313

We evaluate Holman Brothers (E.A) Ltd in the formulae above to calculate the required sample size. Since sample size for the population is less than 1000, we use improved formula of Mugenda and Mugenda (2003).

$$\text{new ss} = \frac{Ss}{1+\frac{ss-1}{pop}}$$

According to Mugenda and Mugenda (2003), sample size of at least 30% of the target population in a study is representable. The total sample after calculation was 116 out of the total population of 313 which is 37% thus considered representable. The sampling frame was the eleven departments in Holman Brothers (E.A) Ltd which include; Sales and Marketing; Human Resource; Finance and Accounts; Customer service; Store and Inventory; Maintenance; Procurement and Logistic; Research and Development; Installation and Information technology; Machinery and Equipment. Sampling frame is a list of elements from which a sample is selected (Babbie, 2009).

6.3 Data collection instruments

The study used questionnaires and interviews as research instruments, which were clear, simple to understand, unbiased and objectives (Orotho&Kombo, 2002). Interviews were applied to senior managers in 11departments. Questionnaires were issued to the rest of the sample targets. The study adopted the use of questionnaires since they collect more information from large sample, confidentiality is upheld, saves time, there is no interview bias since they are presented in paper format. According to Kothari (2003), they recommend the questionnaires. During interview the responses from the respondents were instant and provided direct contact with the researcher which cleared any misunderstanding on the subject of the study (Kothari, 2003).

7 Research Findings and Discussions

The study sought to establish how competition affects the performance of Holman Brothers (E.A) Ltd. The level of competition in a given market prompts the management of organizations to seek new ways to remain competitive in the market (Waynes, 2004).

8 Descriptive Statistics

8.1 Business Performance

The study collected data on competitive aspects of Holman Brothers (E.A) Ltd. From the findings presented in Table 1, data was captured using a five-point likert scale. According to the scale continuum, 1 represented poor 2 represented fair, 3 represented average and 4 represented good and 5 represented excellent. Descriptive statistics such as mean and standard deviation were used to analyse the data.

Performance is the accumulated end results of' all the organization's work process and activities. Managers want their organization work units or work groups to achieve high levels of performance no matter what mission, strategies or goals are being pursued (Robbins and Coutler, 2000). According to the findings, the customer complains for products and services are on average (M=2.5) and customer retention services are very effective and efficient (M=2.9). The staff turnover has fairly declined over the last two years (M=2.4), sales team are fairly given bonus as incentives (M=1.8) and operational overhead expenses are fairly low (M=2.1).

The company environment creates team work and motivation among the staff fairly (M=2.0). The findings of the study indicated that mean ranged (M=1.8 – 2.9) which collaborates with the studies conducted by Rice (2000) on internal and external factors affecting the performance of small and medium enterprises the mean of the variables should range between (M=1.6-3.0). However the findings also contradict the studies conducted by

Walton, (2003) where he stated external factors like competition dominates more than internal factors affecting business performance hence pushing mean of the variables upward to (M=4.0-5.5).

8.2 Competition

The study collected data on competitive aspects of Holman Brothers (E.A) Ltd. From the findings presented in Table 2, data was captured using a five-point likert scale. According to the scale continuum, 1 represented poor 2 represented fair, 3 represented average and 4 represented good and 5 represented excellent. Descriptive statistics such as mean and standard deviation were used to analyse the data.

According to Porter (2002), businesses can stand out from their competitors by developing a differentiation strategy. The finding shows some differentiation measures taken by Holman Company. The study findings, shows that Holman Brothers Ltd on average (M=3.0) offered prices for products and services that were high compared to that of her competitors. The company's promotions for products and services is average (M=2.6). On average the company embraces innovations and development when designing new products and services to suit (M=2.6) and incorporates information technology in design of products and delivery of services (M=2.6). According to the findings, the company fairly offers after sales services (M=2.2) and delivers their products and services reliably to the customers. In general Holman Company has some competitive measures to ensure it remains competitive in the market which is being expanded as new competitors continue to join the industry (Holman management report, 2012). The findings of the study indicated that mean of the variables ranged between (M=2.3 - to 3.0) which collaborate with the study conducted by Jones et al, (2003) where he stated when new competitors enter in an industry, competition increases and prices decrease and the mean should range between (M= 2.0 - 3.5) for the survival of the organization.

The interviews revealed that competition was a major concern to the management of the Holman Brothers Ltd. The managers were very positive on use of new products and services through innovations, products development and incorporation of information technology. The study collaborate with the studies conducted by Colander (1999), where he stated that for the firm to fit in a perfect competition market it should introduce new differentiated products and services, which the managers of Holman Brothers (E.A) Ltd are embracing. The company according to the interview results embraces strategies to counter the progress of rival companies. The company does strategic marketing to ensure it gets majority of the customers and market share. Gregory (2008) points out that marketing strategy is a long term course of action designed to optimize allocation of scarce resources at disposal of a firm in delivery superior customer experiences and promote the interest of other stakeholder.

9. Inferential Statistics

Following the model summary, of R^2 was 0.994. This implies that competition accounts for 99.4% of the variations in the dependent variable (performance) and the rest 0.6% were explained by other factors. The co-efficients from the model are 0.426 and its significance is 0.000. An increase in competition by one unit holding other factors constant increased the performance by 0.426 units.

10. Findings Conclusion and Recommendation

The company has good competitive abilities and advantages. The prices of the company's products and services are higher than their competitors. Promotional approaches are average. The company has included innovative and developmental designs which suits customers and fairly offers after sales services to their customers. The competitiveness of the company contributes to good performance of the company (Armstrong, 2005).

The study found that competition among the companies made Holman Brother (E.A) Ltd achieve competitive advantage. This contributed to the general improvement on the performance of the company. The study recommends that for the firm to achieve competitive advantage it should embrace cost leadership, differentiation and cost focus strategy Wayne (2004). The study also recommends that the government and through the ministry of trade puts up a conducive environment by improving infrastructure, security, regulation of trade barriers and affordable taxation which promotes fair competition which in turn improves the performance of the individual companies.

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Table 1: Performance of the Company

Descriptive	N	Mean	Std. Dev
There has been decline in staff turnover for the last two years	163	2.4	0.5
Sales team are given bonus as incentives	163	1.8	0.4
Customer complains for products and services are very few	163	2.5	0.6
Operational overhead expenses are very low	163	2.1	0.3
Customer retention services are very effective and efficient	163	2.9	0.3
There is team work and motivation aspect among staff	163	2.0	0.1

Table 2: Effects of Competition on Performance

Description	N	Mean	Std. Dev
Prices offered for products and services are high compared to that of competitors	170	3.0	0.3
Promotions for products and services are very minimal	170	2.6	0.6
After sale services for machines sold are very minimal	169	2.2	0.6
The means of delivering products and services are reliable	170	2.3	0.5
The company embraces innovations and development when designing new products and services to suit customers	169	2.6	0.6
Information technology is incorporated in design of products and delivery of services	170	2.6	0.5