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IMPACT OF COMPETITIVE ENVIRONMENTAL FACTORS ON THE OPERATIONAL STRATEGIES OF LISTED MANUFACTURING FIRMS IN NIGERIA'S FOOD AND BEVERAGE INDUSTRY

By

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Abstract

The growth and survival of manufacturing firms operating in the Nigerian food and beverage (FBI) industry is being threatened as a result of the proliferation of assorted goods in the market and this intense competition has made it imperative for organisations to try to understand the environmental forces that should drive the choice of their operational strategies. This study examined the impact of competitive environmental factors on the choice of operational strategies of listed manufacturing firms in the FBI of Nigerian economy. The study used appropriate sample size determination methods to arrive at six firms and 159 management staff were used as sample size. The primary data was collected through a likert scale questionnaire administered on the target respondents, while the secondary information was collected through the relevant literature. The study employed regression technique to analyse the subject of discourse. It was found through the adjusted R^2 that competitive factor impacted on the manufacturing firms' choice of diversification as operational strategies. It was recommended that management of manufacturing firms in the Nigerian FBI should be proactive in dealing with the environmental dynamism such as changes in competitors' product quality, product design, pricing strategy, promotional strategy and the need to fight for shelf spaces in the retailers' shop as forces in the competitive environment.

Keywords: Competitive Environmental factors, Operational Strategy, Multi-product Marketing Strategy, and Listed Manufacturing Firms.

1.0 Introduction

Operational strategies that manufacturing firms adopt are usually influenced by the uncontrollable environmental factors such as economic, competitive, socio-cultural, political, and legal which exist in their area of activities (Amoako-Gyampah, 2003).

Market competition is one of the external or uncontrollable factors that comprise the organization's environment (Chong & Rundus 2004) and firms are generally faced with different degrees of market competitions in their different areas of operations. The advent of globalization has exposed many firms in developing countries to face stiffer competition from firms in developed countries of the world. Most of these firms now have to cope with the declining market share while several others have been forced out of the market (Waweru *et al.* 2004 & Al-Rfou, 2012).

Similarly, Nigerian manufacturing industry as a member of global Industrial community had her share of the dwindling levels of business activities and this had resulted in poor performance by most of the firms in the sector. Indeed no other sector of the Nigerian economy can be said to have faced more challenges like the manufacturing sector in terms of doing business in the recent past. It is lamentable that Nigeria government has not been able to create enabling environment for manufacturing and other business activities to thrive.

For any Nation to attain growth and development there must be enabling operating environment for manufacturing activities to thrive, this is because manufacturing industry contributes significantly to the nation's economic development in the following ways : it increases government revenue through tax, it increases industrial activities, it improves standard of living, it leads to growth in infrastructural facilities, it creates employment opportunities, it enhances manpower development through the provision of training and it improves bilateral relationship among nations especially in terms of trade with other foreign nations (Obasan & Adediran, 2010).

However, a nation could only enjoy all these if it has provided enabling environment for manufacturing and other business activities to thrive in her economy system and this is what Nigeria economy is current lacking.

Indeed, Abdulsalam (2008) observed that Nigerian manufacturing sector has collapsed due to infrastructural decay such as shortage of energy; unfavorable government policies, intense competition and other social and politico – economic malaise and these situations had made some manufacturing firms to close shop and those operating are doing so at a rate far below the installed capacity and are classified as “ailing”.

Thus, for Nigerian manufacturing industry to survive and grow in the face of competitive pressure from their operating environment they need to develop and use apposite manufacturing policies and marketing programmes.

The manufacturing policies and marketing programmes should be those that will enable them to attain their set goals given the turbulent nature of manufacturing operating environment in Nigeria. This is because business firms all over the world operate in a dynamic environment wherein; the number, extent and pace of changes in the external environment mean that no business can afford to be complacent (Cook, 1995). In addition, Olujide and Aremu (2004) observed that strategy is particularly important in Nigeria today because of the volatility, high competitiveness and the stormy nature of the marketing environment. This calls for every firm to use marketing strategy to gain competitive advantage.

As a result of the aforementioned situations, a number of Nigerian firms in the manufacturing sector have switched their operational strategies towards diversification or multi-product strategies in line with the suggestions of Burgelman (1983) that the adoption of diversification strategy is driven by deteriorating or inferior performance. In fact, Aaker (1980) further asserted that the field of marketing strategy should consider the totality of marketing environment and its impacts on a company or product, and that firm's emphasis should be an in-depth understanding of the market operating environment particularly the competitors and customers. Consequently, if a marketing manager must remain useful and relevant in today's turbulent environment, he must be able to help shape and implement new strategies and new managerial processes and activities (Aluko *et al.*, 1998).

It is against this background that this research purpose examines the impact of competitive environmental factors in making manufacturing firms to adopt diversification marketing strategy.

A careful review of the extant literature in this area revealed that there are few studies that have examined the effect of business environment on the choice of operational strategy of manufacturing firms (such as Van Dierdonck and Miller (1980), Swamidass and Newell (1987) & Ward *et al.* (1995). Majority of these few studies were conducted in other countries especially the emerging economies of the world outside Africa like the study of Ward *et al.* (1995) that was conducted in Singapore, the work of Badri *et al.* (2000) which was conducted in the United Arab Emirates (UAE) and that of Al-Rfou, (2012) that was done in Jordan. It was as a result of this that Hoskisson *et al.* (2000) as cited in Amoako-Gyampah (2003) observed that studies on organisation strategies in emerging economies have concentrated on China and some countries in Central and Eastern Europe, in spite of the fact that sixty four countries in the four regions (i.e Africa/Middle East, Asia, Central and Eastern Europe and Latin America) were identified as emerging economies by the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development. The apparent paucity of studies on the subject matter from African and by extension Nigeria's perspective stimulated the interest of this study to examine how the forces of competition in the business climate affect the choice of operational strategies of listed manufacturing firms in the Nigeria's Food and Beverage Industry.

The purpose of this study therefore, is to examine the impact of competitive environmental factors on the strategic decision of quoted manufacturing companies in the food and beverages industry and to do this effectively; the study aims to determine the impact of competitive environmental factors on the manufacturing firms' choice of diversification strategies.

The hypothesis formulated to guide this study in the achievement of its objective is:
Competitive environmental factors do not have significant effect on the manufacturing firms' choice of diversification strategies.

2.0 Literature Review and Conceptual Framework

Obasan (2001) observes marketing environment as the sum total of the physical and social forces and institutions that are relevant to the organisational goal setting and goal attainment which are taken directly into consideration by members of the organisation when making business decisions and plans. Osuagwu (2009) on his part defines marketing environment as those factors which are outside the marketing systems but which determine, partly at least, how the system performs

From the above, one can deduce that marketing environment simply refers to the opportunities and challenges in a business operating environment which may impact positively or negatively on its operations. In fact, business organisations and their environment are in mutually inter-dependent interaction with one another. A business organisation exists in the world of resources, opportunities, and limits. It can survive and thrive only when the environment desires its output of goods and services and is prepared to approve and endorse its activities. That is why Imaga (2003) and Ilesanmi (2000) pointed out that a business organisation does not exist in a vacuum. Business organisations live within the environment and can only survive, grow and expand when they continuously adapt and respond on time to their environment. Hence, marketing environment establishes the parameters within which companies must operate, but their success is a function of their interaction with each other as upon their interpretation of, and adaptation to the general environment (Baker, 1992).

In the views of Osuagwu, (2009), Anugwon (2005), Ogundele (2005), Kotler (2003), Imaga (2003), and Onu (2000) the external environmental factors that influence business organisations' operations can be categorized into economic factors, socio-cultural factors, political and legal factors, technological factors, competitive factors, ecological factors, demographic factors etc.

According to Azhar (2009) competition is a game in which one player loses at the expense of the other. A move on the part of a player may cause other players to make counter moves or initiate efforts to protect themselves from the danger posed by the initial move. In this manner, firms within an industry are mutually dependant.

Therefore, situation in an industry keeps changing with the actions and reactions of the constituent firms. The desire to be the market leader or to corner a leader's market share leads to rivalry among competitors within an industry, when the rivalry is weak, there is likely to be lesser competition, and where such rivalry is high, the level of competition is higher (Azhar, 2009).

The competitive environment refers to any form of rivalry organisations in an industry experience in the market place, from firms producing and marketing the same or similar types of products in the market (Nickels *et al*, 2002).

This rivalry in the view of Azhar (2009) at times come in form of wars in marketing decision areas such as : product quality and design war, war in area of setting prices, war in terms of fighting for space in the channel members' shelve and communication or promotional war in the media. Furthermore, Nickels *et al* (2002) pointed out that marketing executives in manufacturing firms should know that today's customers are very demanding, not only do they want good quality at low prices, but they also want great services as well. In fact, manufacturing firms should design their products, price them, place them and promote them well enough to fascinate, bewitch, and delight customers and this will consequently make the product to exceed the customers' expectations (Nickels *et al*, 2002).

Firms that stand their vulnerability to the external environmental factors must possess many uncommon characteristics including an adaptive and flexible managerial style, a balanced portfolio of products, and a well-developed intelligence and information system designed to monitor and anticipate environmental changes (Osuagwu, 2009).

Strategy is a link between an organisation and its environment and organisational strategy must be consistent with the goals, values, the external environment, resources, organisational structure and system (Ansoff & Mcdonell 1990), while, to Kotler and Keller (2009) strategy simply mean a game plan for achieving organisational goals.

Marketing authors such as Porter (1986), Miles and Snow (1978), Ansoff (1957) and Kim and Mauborgne (2005) have classified marketing strategies in many ways, this study however, examines Ansoff (1957)'s product and market expansion grid and it specifically discuss diversification or multi-product strategy as one of the strategies in the model.

Diversification or multi-product marketing strategy is a means by which a firm expands its business or product into other products or markets (Aaker, 2004 ; Dacin and Smith, 1994 ; Laforet and Saunders, 1999 and Morgan and Rogo, 2008).

Essentially, diversification involves substantial change in the business definition - singly or jointly in terms of customer function, customer groups or alternative technologies of one or more of a firm's businesses (Kazmi, 2008, and Kotler, 2003). From the above, it can be seen that multi-product or diversification marketing strategy simply refers to a situation where a firm, due to certain reasons such as poor performance, desire for increase sales or profits, decides to venture or expand into new products and or markets.

There are three types of diversification or multi-product strategy and these are concentric, horizontal and conglomerate (Kazmi, 2008, and Kotler, 2003). However, this study examines the concentric and conglomerate multi-product or diversification strategy.

Concentric or multi-product or diversification consists of a company seeking to add new products that have technological and/or marketing synergies with the existing product line and these products will normally appeal to new classes of customers.

Conglomerate multi-product or diversification strategy consists of a company seeking to add a new product that has no relationship to the company's current technology, products, or markets and these products will normally appeal to new classes of customers. The conglomerate diversification has very little relationship with the firm's current business. Therefore, the main reasons for adopting such a strategy are, first, to improve the sales, profitability and the flexibility of the company, and second, to get a better reception in the capital markets as the company gets bigger.

2.1 Review of Previous Empirical studies

The thrust of contingency theory is that a firm must be aligned with its operating environment in order to attain its set objectives (Al-Rfou, 2012 and Hayes, 1977). Companies facing intensive competitive market environments tend to use a greater number of product and service lines. In particular, increased market competition encourages organizations to offer multiple new products and services at reasonable prices to their customers (Mia and Clarke 1999; Al-Omiri and Drury 2007). The review of the extant literature in this area revealed that there are few studies that have examined the effect of business environment on the choice of operational strategy of manufacturing firms. Majority of the few studies were conducted in other countries especially the emerging economies of the world outside Africa.

This study presently reviewed some of the extant related empirical works below :

Ward, *et al.* (1995) examined business performance, operations strategy and performance of manufacturing firms in Singapore. The aim of their work was to determine the linkages among business costs, labor availability, competitive hostility and environmental dynamism and the operations strategy choices of low cost, quality, flexibility and delivery performance. Their study found that there are significant paths linking environmental dynamism with the competitive choices of flexibility, quality, delivery and performance. Badri *et al* (2000) examined operations strategy, environmental uncertainty and performance of Industry in United Arab Emirate (UAE). The purpose of their study was to examine the relationships among operations strategy, environmental uncertainty and performance among manufacturing firms.

It was found that competitive strategy acts as a mediator between an organisation's environment and its manufacturing strategy. Amoako-Gyampah (2003) examined the relationships among selected business environment factors and manufacturing strategy. The objective of his paper was to determine if the general model linking business environmental factors and manufacturing strategy choices is applicable to an emerging economy in Ghana. This study found that in an emerging economy, concerns about the competitive hostility is the factor with the strongest influence on manufacturing firms' choice of strategy.

Osuagwu (2009) studied environmental perception in bank marketing strategies and the purpose of this study was to determine the relative importance and impact of specific aspect of environmental factors on marketing strategies of Nigerian Banks.

The findings of the study reveal that competition had the most important and impacting factor in the strategic marketing practices of the Nigerian Banking Industry. Al-Rfou (2012) conducted a study on competition and organizational firms' performance in Jordanian. The study aims at determining if there is relationship between the intensity of market competition and positive organizational performance and it was observed that the intensity of market competition has appositive strong effect on organizational performance.

3.0 Methodology

This is a survey research and the seventeen (17) quoted manufacturing firms operating in the food and beverage sector of Nigerian Stock Exchange (NSE) as published in the 2010 edition of NSE Fact book constitutes the population of this work. The choice of Nigerian manufacturing sector is borne out of the fact that it is one of the largest sectors listed in the Nigerian Stock Exchange. Also, this work adopts Cochran (1977)'s formula for sample determination to arrive at six manufacturing firms considered as the most appropriate sample size for this study. The six (6) sampled manufacturing firms were distributed equally across the two strata, that is, three (3) from conglomerate multi-product firms and the remaining three (3) from concentric multi-product firms.

The selected concentric multi-product manufacturing firms are : Nigerian Bottling Company Plc, UTC Nigeria Plc, and P.S. Mandrides & Co. Plc, while the Conglomerate multi-product manufacturing firms consist of Cadbury Nigeria Plc, Nestle Nigeria Plc and Flour Mills of Nigeria Plc. Out of these selected manufacturing firms, five (5) are located in Lagos state and the remaining one in Kano state. To arrive at the above selected firms, the study used a combination of sampling techniques which is normally adopted when a single sampling technique is considered inadequate (Halliru, 2008 and Greener, 2008). The sampling techniques used for this work include purposive and stratified sampling. Thus, Management staff of the six selected firms were used as the sole population of the study in determining the elements (respondents) to be studied.

This work adopts purposive sampling technique to determine their inclusion as the sample of this study and the adoption of this criterion is not strange as Abdulsalam (2006) and Osuagwu (2009) used such a criterion in their studies.

Furthermore, the adoption of purposive criterion for picking sample elements is due to the fact that management staff are knowledgeable and experienced enough to evaluate marketing strategies and the associated influences of competitive environmental factors on business activities. Krejcie and Morgan (1970)'s formula was employed to proportionally select 159 out of 270 management staff that constitute the study's population elements as sample size.

3.1 Measures

This study uses both primary and secondary data. The primary data were sourced through questionnaire which was administered on target respondents.

The measures used in assessing the impact of competitive environmental factors on the choice of operational strategy of quoted manufacturing firms consisted of five questions dealing with competitors' product quality, product design, methods of pricing, promotional strategy and fight for shelf space in the retailers' shop. The respondents were also asked to answer a question about their firms' product diversity as well as their demographic profile. The questionnaire comprises of a set of multiple choice and Likert scale questions. A 5-point Likert scale was used with responses ranging from 5 strongly agreed to 1 strongly disagreed. The five items were averaged to form a composite measure with higher score indicating that competitive environmental factor has impact on the choice of operational strategy of manufacturing firms.

However, the responses to the questionnaire item on the type of product strategy of the sampled firms, that is, whether the firms operate conglomerate or concentric diversification strategy were coded 1 for conglomerate and 0 for concentric. This is because, the responses are qualitative responses and we used them as dummy variables in this study.

More so, internal consistency reliability test and item to total correlation of the questionnaire items were computed and frequency distribution tables and percentages were used to present the study's data.

The analytical technique used in this study is data regression analysis and Statistical Package for Social Sciences (SPSS) version 15.0 was employed to run the regression analysis.

3.2 Model specification

$$Y = a + bx_1 + x_n$$

Where:

Y = Product strategies, which is the dependent variable (this is represented by Dummy variables)

a = Intercept (constant)

b = Slope (rate of change in competitive factor)

x = Independent variable (competitive factor prompting the adoption of diversification strategies)

The values assigned are; 1 for conglomerate diversification strategy
0 for concentric diversification strategy

4.0 Result and Discussions

From table II in appendix A, it was revealed that 147 usable copies of the questionnaire were returned out of 159 and this gives a response rate of 92%. It also showed the frequencies and percentage of respondents according to their Department and Official Status and Product Strategy.

4.1 Reliability and validity

The study computed Cronbach's alpha reliability test and item-to-total correlation to address the issues of common variance and to also assess the internal consistency of the multiple scales (see Table III in appendix B). Items having low item-to-total correlation may indicate that the items do not reflect the particular construct or may have tapped into another dimension of the construct. From the table, Cronbach's alpha reliability test result is 0.82 and this implies that test result is above the minimum threshold (0.7) suggested by Nunnally and Bernstein (1994). In addition, the result also indicated that the item-to-total correlations were all above 0.5 which is the minimum value recommended by Hair *et al* (2006). Thus, the result indicates high internal consistency of the research instrument.

4.2 Test of Hypothesis

Table IV in appendix B shows that 40.1% of the total variation in the dependent variable (product strategies) is being explained by the independent variable (competitive factors), the adjusted R^2 reveals that the regression model obtained can be used to predict the impact of competitive factor on operational strategies of manufacturing firms.

From table V, the independent variable (competitive factor) shows that the P-value is 0.000 and the result is significant at 1% level, hence, we reject the null hypothesis and conclude that competitive environmental factors have significant effect on the operational strategies of manufacturing firms.

5.0 Discussion of the Results

The above result indicates that competitive factors in the operating environment of the manufacturing firms that are quoted in the Nigeria food and beverage industry impacted on their choice of operational strategies. The result shows that competitive factors in the operating environment of the firms studied have impact on their adoption of diversification marketing as their operational strategies, as 40.1% of the total variation in the manufacturing firms choice of operational strategies is explained by the happenings in the competitive environment, while other variables that were not included in the study's model explain for 59.9 % variations in the organizations' choice of operational strategies.

This result is in total agreement with the study of Osuagwu (2009) which discovered that competition as a factor in the operating environment of business organisations has the highest impact on marketing strategies of Nigerian banking industry. The findings of this study is also consistent with the findings of the study of Amoako-Gyampah (2003) that discovered that in an emerging economy the concerns about the competitive hostility is the factor with the strongest influence on manufacturing strategy choice. It also agreed with the work of Al-Rfou (2012) that found that the intensity of market competition has appositve strong effect on organizational performance.

5.1 Managerial Implication

The managerial implication of the above finding is evidence from the results of the reliability test and item to total correlation which suggest that the finding will be useful as an important insight for stakeholders in the manufacturing sector. Specifically, the managerial implications of this study is that competitive environmental factors significantly impacted on the operational strategies of quoted manufacturing firms in the Nigeria's food and beverage industry. Thus, organizational managers are encouraged to regularly conduct marketing research and monitor their operating environment in order to get the required information to aid their strategic operational decisions.

5.2 Conclusion

The study concludes that the competitive factor variables such as competitors' product quality, competitors' product design, competitors' pricing strategy, competitors promotional strategy and the need to fight for shelf spaces in the retailers' shop have made the studied manufacturing firms to operate diversification marketing strategies.

5.3 Recommendations

On the basis of the findings and conclusion of the study, it is recommended that responsible managers in the manufacturing industry should note that they are operating in an environment characterized with high level of competitive activities which have great impact on their operational strategies. Hence, management of manufacturing firms in the Nigerian FBI should be proactive in dealing with the environmental dynamism such as changes in competitors' product quality, product design, pricing strategy, promotional strategy and the need to fight for shelf spaces in the retailers' shop as forces in the competitive environment.

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Appendix A

Table II: Demographic Characteristics of Respondents and Their Firms

Official Status	Frequency	Percentage
Management Staff	15	10.2
General Manager Cadre	64	43.5
Manager Cadre	68	46.3
Total	147	100
Department	Frequency	Percentage
Admin./Accounts/ Human Resources	36	24.5
Production/Logistics	26	17.5
Marketing & Sales	85	58.0
Total	147	100
Product Strategy (Operational strategy)	Frequency	Percentage (%)
Concentric diversification	56	38.1
Conglomerate diversification	91	61.9
Total	147	100%

Source: Field Survey, 2012

Table III: Descriptive statistics and item- to - total correlations

Variables	Mean	SD	Item to Total Correlation
Competitors' product quality makes manufacturing firms to go for diversification operations.	3.30	1.150	0.657
Competitors' product design forces manufacturing firms to adopt diversification strategy.	4.29	0.871	0.960
Competitors' pricing strategy forces manufacturing firms to adopt diversification strategy.	4.07	0.763	0.597
Competitors' promotional strategy causes manufacturing firms to operate diversification strategy.	3.82	.863	0.706
Fight for shelf space in the retailer shops spurs manufacturing firms to adopt diversification strategy.	3.90	.887	0.683
Overall Cronbach's alpha	0.82		

Source: Researchers' simulation from SPSS Package.

Table IV: Model Summary

Model	R	R Square	Adjust R Square	Std. Error of The Estimate
1	.802 ^a	.410	.034	.679

a. Predictors: (Constant), Competitive factor

Table: V Regression results: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.516	.057		26.426	.000
Competitive factor	.010	.004	.802	2.489	.014

a. Dependent Variable: Product Strategy

Department	Frequency	Percentage
Admin./Accounts/ Human Resources	36	24.5
Production/Logistics	26	17.5
Marketing & Sales	85	58.0
Total	147	100
Product Strategy (Operational strategy)	Frequency	Percentage (%)
Concentric diversification	56	38.1
Conglomerate diversification	91	61.9
Total	147	100%