

# The Effect of Competitive Strategies and Innovation on Firm Performance: A Study of Zimbabwean Textile and Clothing Firms

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## Abstract

The paper studies the impact of competitive strategies and innovation on firm performance. Data was collected using a structured questionnaire designed on a five point liker scale. One hundred and fifty employees, mainly those in charge of operations up to Chief Executive Officers who were knowledgeable about competitive strategies participated. Fifty firms operating in textile and clothing manufacturing provided the basis for the research. The structural equation modeling was employed using the least squares. The results show that focus and differentiation strategies have a positive direct relationship with firm performance and innovation. However cost leadership has indirect relationship with firm performance and a positive relationship with innovation which in turn improves firm performance. Implementation of the three generic strategies enables managers to gain competitive advantage for their firms although attention needs to be paid to innovation which acts as an enabler between the competitive strategies and firm performance.

**Keywords:** Generic strategies • Innovation • Firm performance • Textile and clothing firms • competitive advantage and firm competency

## Introduction

Competitive strategy seeks to develop competitive advantage so as to earn enough above average returns for stakeholders. Competitive advantage arises from the firm's strategic management of resources, firm capabilities, core competencies and firm's reaction to opportunities and threats in the environment. Competitive strategy establishes a profitable and sustainable position for the firm against threats from industry competition. The firm attains competitive advantage over rivals to achieve success through use of competitive strategy view competitive strategy as uniqueness in doing activities but in a better way than competitors [1]. Competitive strategy needs continuous adjustments and realignment so as to develop firm competencies and arbitrage changes in external environment.

### Textile and clothing manufacturing in Zimbabwe

The Textile and Clothing Industry is among the oldest, largest and most global manufacturing industry in the world. The sector plays a significant economic role in many countries with specific reference to Africa and Asia and as well as developed countries. Zimbabwe's cotton to clothing value chain has lost the competitiveness it once enjoyed in recent years. The major causes for the current state of

affairs being globalization, consolidation, capacity constraints and lack of preparedness. The surge of low priced imports from low-cost countries into the Southern African Development Community (SADC) and Zimbabwe have led to a severe reduction in the capacity utilization of the local and regional cotton to clothing value chains. This has resulted in broken value chains, creating a reduction in the size of the economy and throwing thousands of people out of work. Zimbabwe's Textile and Clothing sector's market structure during the period of the introduction of Economic Structural Adjustment Programme and in years after 1995 to 1999 was oligopolistic. During the period, six large companies controlled seventy five percent (75%) of the local market resulting in inefficiencies leading firms to fail to improve on the quality of their products and hence failing to penetrate the export market.

Zimbabwean Textile and Clothing industries lacked innovation and product differentiation because production was largely on routine and there was no backup of Research and Development Institutions as organizations relied mainly on "gifted amateur". During the same period dialogue between Government and Industry had collapsed except for issues of foreign currency unlike during the Unilateral Declaration of Independence (UDI). Furthermore, Zimbabwean Textile and Clothing industry never bothered itself to move with global

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trends concerning marketing of textile and clothing goods especially with the World Trade Organisation (WTO) quota system regulated by Multi-Fibre Agreement(MFA) and the Agreement on Textile and Clothing (ATC), both of which had limited duration and expired. The share of the Clothing and Footwear subsector in manufacturing output declined from an average of seven percent (7%) during pre-ESAP to six percent (6%) during the period of ESAP. Following the introduction of ESAP, the share of the textiles subsector in manufacturing output declined from eleven comma three percent (11.3%) in 1985 to seven comma nine (7.9%) by 1995 while that of the Clothing and Footwear subsector dropped from seven percent (7%) in 1990/91 to five percent (5%) by 1995. The share of manufacturing sector in gross domestic product declined from a high of twenty seven percent (27%) in 1992 to nineteen comma two percent (19, 2%) by 1995 and seven comma two percent (7.2%). The decline indicates the crisis bedevilling the Textile and Clothing sectors. The decline during ESAP (1991-1995) was mainly due to the influx of competing lowly priced imports while further declines after 1995 reflected both the liberalization of trade and the current economic crises. The opening up of the economy in 1991 exuberated by current economic crises resulted in market de-industrialization. The biggest weakness of the Textile and Clothing sector in the country is taking advantage of economies of scale and creating cost-cutting measures. The issue of cost-cutting measures is not only a problem for the Textile and Clothing industry but also all other manufacturing industries as a whole [2]. The subsector needs to carry a serious due diligence and identify the key drivers of the sector that can assist in its revival. They need to be remodelled to fit the conditions that would make it more competitive before capital is injected. However, when formulating a strategy that needs to deal with imports, it should be noted that there are advantages and disadvantages in that if the market is protected from cheap imports, then the issue will be facilitating local producers in meeting local demand and at affordable prices which might be difficult at the moment.

## Theoretical background

Competitive strategy is the process of developing competitive advantage and earning above average returns for stakeholders. Competitive advantage is developed from strategic management of resources, capabilities and core competencies including the firm's responsiveness to opportunities and threats in the environment. Competitive strategy mitigates opportunities and threats in the external environment through pre-emptive and reactive strategies. New opportunities are exploited in the wake of new competitive position that may be created in the process. The strategic role of the firm entails performance objectives (such as maximising profits and increasing sales), pricing policies (such as cost-plus, marginal cost, entry- deterring price, collusive pricing, price leadership and price discrimination), and marketing strategies. Thus competitive strategy requires continuous adjustments and realignment to develop internal competencies and to pre-empt changes in the external environment. Achieving sustainable competitive advantage requires core competencies that yield long term benefit for the firm.

Assumes a link between strategy firm performance and competitive advantage to earn above average returns. Several frameworks have been put forward to classify firm strategies however the Porter model is widely accepted put forward five competitive

forces: rivalry among existing competitors, threats of new entrants, threats of substitute product or services, bargaining power of customers or buyers and bargaining power of suppliers. In order to deal with the forces, he advocates taking offensive or defensive actions in competitive strategies to be strong in an industry. Competitive strategy perception appreciates the significance of a competitive advantage, which is a result of strategic activities of the company. In this regard, generic strategies, that is cost leadership and differentiation, and focus which can be used simply or in combination is identified to outperform competitors in an industry.

Widely talked about is Porter's cost leadership that concentrate on gaining competitive benefit by being the lowest cost producer in the industry. For an organisation to achieve low cost advantage it must have a low cost leadership strategy, low-cost manufacturing and workforce committed to the low-cost strategy.

Cost leadership has been defined as the ability of the firm to maintain significantly lower prices as compared to those of the competitors in the same industry view cost leadership as a set of actions taken by a firm to produce products either goods or services that have features that are appealing to the customer. Thus low cost leadership strategy seeks to supply a high volume of goods and services at the lowest price in the market to attract the most number of customers argued that to achieve low cost strategy, the organisation has to cut on activities that do not cut on cost and hence not creating a cost advantage on the part of the firm.

Further argued that effective cost leadership strategy arises from a large market share. In the same view, states that high income is achieved by having a large market share, which develops due to lower prices that attracts a higher percentage of buyers. Technology was found to be one of the most important factors that reduce production cost of an organisation. Similarly lower cost and cost advantages can also result from process innovations, learning curve benefits and economies of scale, product designs reducing manufacturing time and costs and engineering activities. Low cost leadership allows an organization to present barriers against new market entrants who would need large amounts of capital to enter the market.

Differentiation strategy includes making an item that is seen as special. Differentiation's essential concentration is making uniqueness so that the firm's merchandise and services are unmistakably recognised from those of its rivals. Uniqueness of the product provides high customer loyalty. Product differentiation meets customer demands and it involves tailor made products or services. The organisation can charge premium prices to capture market share. Differentiation requires being different or unlike competitors by providing superior information, prices, communication, distribution channels and prestige to the customer.

Differentiation can be in various forms such as research and development projects, price designs, brand image, technology, patents features, customer service, distribution, delivery network and dimensions noted that firms that succeed in a differentiation strategy have the following inner strength: access to dominant scientific research, highly educated and ingenious product development team, and strong sales team with the capability to successfully communicate the apparent strengths of the product and corporate repute for quality and innovation.

## Focus

The focused firm chooses a specific segment or group of segments in the industry. The firm chooses to focus on a selected customer group, product range, geographical area or service line. Focus hold at growing market share through operating in markets or niche market either not attractive to, or overlooked by larger competitors. Cost focus or differentiation focus rely on the differences of the given segments from the other segments in the industry that is differences in cost behaviour or the unique needs of the segment. Focus strategy is effective when consumers have dissimilar preferences and when the niche has not been followed by rival firms.

## Innovation

Innovation is defined as the management of all activities related to the process of creating ideas, technology development manufacturing and marketing of a product, process, manufacturing or new equipment. Firms that have the capability to implement complex innovations strategies may achieve extra competitive advantage in terms of performance in comparison with competitors that implement simple innovation strategies. Innovation is considered the only way for companies to gain a sustainable competitive advantage and improve performance. Creativity in production or service rendering is required on existing as well as in creating a new product. To create innovation, the company need to create an internal environment that facilitate a culture of innovation identified by flexibility and speed change for the purpose of responding to new opportunities. Analysed the effect of technological innovation on productivity of firms and found positive results. Earlier studies of the effect of innovation on firm performance reported a positive relationship.

## Competitive strategies and firm performance

Competitive strategies have great influence on firm performance. Measuring firm performance has been a method for all stakeholders who have vested interest in the firm. The relationship between generic strategies and firm performance has been a controversial problematic and unresolved. Performance measurement has not been straight forward because there is no universally recognised single measure. The importance of firm performance have also led non- profit organisations to track firm performance as to deal with scarce resources. To evaluate how well a business is performing stakeholders use both financial and non-financial measures. On financial measures such as earnings per share revenue growth, return on investment are commonly used while issues like customer satisfaction, employee turn over, supplier relations e.t.c are used. A significant relationship between generic strategies and non –financial business performance exist [3]. Thus the evaluations of firm performance can either be objective or subjective. Objective methods refers to the financial performance ratios and subjective once being non- financial performance or the perception of the respondent. This study adopts both approaches as did.

## Research Model and Hypothesis Development

Several studies have focused on Potter's generic studies in various studies. A substantial number of the studies have suggested that Potter's generic strategies are positively associated with firm performance. It was generally observed that firms following cost

leadership and or differentiation strategies could achieve superior performance, in terms of market share and profits found that there is positive relationship between the organisation's choice of strategy and the firm's non-financial performance. This study seeks to address firm performance, financial and non-financial included. The relationship between cost leadership and differentiation strategies and firm performance has been widely studied in various industries in several countries however none has been carried out in Zimbabwe especially in the textile and clothing industries. Earlier studies applied the partial list square methods to test hypothesis and show that there is positive relationship of cost leadership, differentiation and market orientation which has positive relationship to firm performance. Earlier studies on the effect of innovation on firm performance reported a positive relationship.

The following hypothesis are proffered; H1; cost leadership strategy is positively related to textile and clothing manufacturing firm performance. H2; Differentiation strategy is positively related to Textile and Clothing firm performance. H3; Focus strategy is positively related to textile and clothing manufacturing firm performance. H4; Cost leadership strategy is positively related to innovation; H5 Focus strategy is positively related to innovation; H6: Differentiation strategy is positively related to innovation.

## Methodology

The study is a causal research which intends to examine the relationship between latent variables within the model. The population of one hundred and fifty employees from fifty textile and clothing manufacturing were selected for this study. The respondents are those in charge of operations that is those in management level starting from management accountants to chief executive officers as they have considerable knowledge about the organisation in respect of generic strategies, innovation and firm performance. Data were collected by distribution of the structured questionnaire to one hundred and fifty companies in Harare and Bulawayo. The questionnaire was designed on a five point likert scale with (1- strongly disagree and 5 – strongly agree). On each of the line item statement, a respondent was encouraged to examine them in accordance to the prevailing situation in their company. From the one hundred and fifty questionnaires, one hundred and forty five questionnaires were completed and returned for analysis. However, after deep analysis one hundred and forty questionnaires were considered valid giving a response rate of ninety three percent. The compositions of the companies are as shown.

The ascertainment of validity, reliability and other descriptive statistics were conducted using SPSS version 23, hypothesis testing was done using structural equation modelling( SEM) and partial least squares method(PLS).

## Results

The results from descriptive analysis showed that 95.6 % of the respondents have been working for five to ten years in textile and clothing manufacturing indicating that the participating population have experience in textile and clothing manufacturing. Further assessment show that 88.7% of the respondents had a diploma or better and 70% of the respondents are from managerial level in

charge of production, marketing, administration and accounting. The other 10% of the respondents are from supervisor (foreman) level. The composition of respondents indicates that majority of respondents (80%) are in the decision making and daily operations of the textile and clothing manufacturing (Table 1).

Company area of operation	Number of companies involved
Protective Clothing	15
Men's and ladies' wear	8
Cotton yarns and duvets, bedspreads	3
School and Corporate wear	9
Safari	2
Knitwear Jerseys	3
Travel bags and cases	2
Children's wear	2
African wear	2
Buttons and other accessories	2
Elastic and Bandages	2
Total	50

**Table 1:** Company's area of operation.

The suitability of the model is tested by examining its goodness of fit (GOF)(Semuel, Siagian and Octavia,2017) while the outer model or measurement model is tested by assessing validity and composite reliability of the block indicator of each variable. As can be seen in Fig 1, there are five constructs in the research and these are not directly observable variables but are estimated by observable variables. The results shown below shows that cost leadership was measured by four items such as operating efficiency, product and quality control, labour efficiency and procurement of raw materials. Differentiation is measured by four items such as brand identification, innovation in marketing, innovation in technology and control of distribution channels. Focus was measured by four items such as new product development in specific segments, manufacturing capacity in specific sectors, targeted distribution and targeted innovative products in specific segments. Firm performance was measured by ten items such as gross profit, earnings per share, return on investments, customer acquisition, market share, new product profitability, efficiency to market, employee retention, employee development and skills coverage ratio. The results are as shown (Table 2).

Item description	Cronbach's $\alpha$	Factor loadings	t-values
Cost leadership	0.734	-	-
Col1	-	0.555	4.242
Col2	-	0.534	4.222
Col3	-	0.663	5.384
Col4	-	0.755	9.563
Differentiation	0.791	-	-
Dif 1	-	0.656	7.618

Dif 2	-	0.722	9.658
Dif 3	-	0.801	10.618
Dif 4	-	0.733	9.646
Focus	0.652	-	-
Foc1	-	0.644	12.403
Foc 2	-	0.733	14.204
Foc 3	-	0.802	16.262
Foc 4	-	0.708	14.101
Tech innv	0.758	0.77	9.678
Tech innv		0.731	9.932
Tech innv		0.63	7.424.
Tech innv		0.595	5432
Firm Performance	0.878		
Fp 1 Increase in gross profit		0.682	12.822
Fp 2 earnings per share		0.596	8.257
Fp 3 return on investment		0.644	11.242
Fp 4 customer retention rate		0.617	10.688
Fp 5 market share		0.678	12.204
Fp 6 customer acquisition		0.689	13.104
Fp 7 new product profitability		0.619	9.678
Fp 8 efficiency		0.558	6.234
Fp 9 employee retention		0.708	16.402
Fp 10 skills coverage ratio		0.7	16.122

**Table 2:** Items measuring variables.

The results indicated the factor loading for this study were greater than 0.6 the benchmark for social sciences, in addition to factor loading scales for reliability are shown by cronback  $\alpha$  values. The measures for Cronbach's alpha were used to determine the internal consistency of the items and the minimum of 0.5 and average of 0.7 was achieved. The results show reliability of items as the minimum scales are all above 0.5. The Eigen values were measured together with Meyer-Okin values of 0.773, and Bartlett Sphericity test of significance of 0.000. the results are considered satisfactory and acceptable considering a benchmark of 0.6 for KMO in social sciences and Bartlett's test of sphericity acceptable significance value for social sciences of less than 0,01 are also achieved.

Similarly, Average Variance Extracted (AVE) was also determined to avoid relying on composite reliability alone as the majority of these could be containing errors [4]. AVE tests are done to see if the square root of every value belonging to each latent construct is larger than any correlation among any pair of the latent constructs. AVE is



determined by dividing the sum of squared factor loading by the number of indicators in each variable.

In this study all the AVE below 0, 5 were considered to be unsatisfactory as variance due to error is higher in them than variance explained by the items. AVE is a strict measure of convergent validity. The results for convergent reliability are as shown in (Table 3).

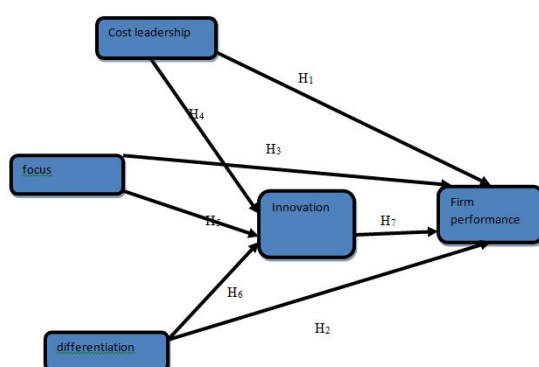
Component	CR	AVE
Cost leadership	0.76	0.447
Differentiation	0.834	0.533
Focus	0.846	0.524
Innovation	0.862	0.47
Firm performance	0.822	0.425

**Table 3:** Composite Reliability (CR) and Average Variance Extracted (AVE).

The study also evaluated for discriminant validity. Discriminant validity assumes that items should correlate with other items from the other constructs that are theoretically not supposed not to correlate. Low values means existence of items with problems that do not denude well in relation with other items that form a different construct. Noted existence of discriminant validity if the squared root of the AVE is greater than all corresponding correlations. Indicates values greater than off diagonal correlations confirming discriminant validity (Table 4 and Figure 1).

Component	Cost leadership	Differentiation	Focus	Technical innovation	Firm performance
Cost leadership	0.641	-	-	-	-
Differentiation	0.412	0.724	-	-	-
Focus	0.38	0.224	0.6	-	-
Tech innovation	0.31	0.366	0.36	0.768	-
Firm performance	0.302	0.298	0.264	0.38	0.7

**Table 4:** Discriminant validity.



**Figure 1:** Conceptual framework.

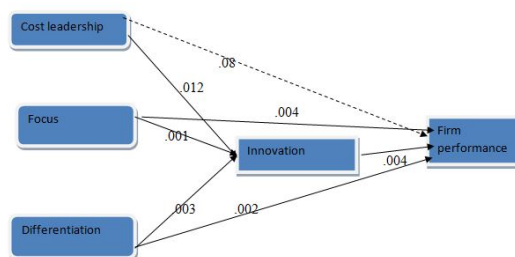
## Discussion

The results above indicate that H1 which supposes cost leadership to support firm performance found different results indicating that firm performance is not directly influenced by cost leadership. Hypothesis H2, H 3 and H7 which supposes a positive direct relation are supported by the results as shown in table 5 above. The results show significant relationship between them. H4, H5, and H6 which supposes significant relationship between innovation and generic strategies are supported indicating direct relationship between the generic strategies and innovation. The results show that the relationship between three competitive, innovation and firm performance are statistically significant. The major factor was focus strategies p-value 0.001 followed by differentiation p-value 0,002. This implies that focus strategies contribute more to performance of textile and clothing manufacturing firms while cost leadership contributed indirectly through innovation results agreeing with. These results contradict who found a positive direct significant relationship with firm performance. However the results show that cost leadership influence firm performance through innovation as the mediator the results that agrees with furthermore, the results show that generic strategies of differentiation and focus directly impact firm performance results which agree with the results confirm literature that states that differentiation gives firms an opportunity to compete and that differentiation enhances product customization which results in building customer loyalty and sustainable firm performance. Findings confirm innovation as playing a mediator role [5]. The study further confirms literature which states that success of differentiation strategy create competitive advantage that produces good performance depended on performing innovations. The results agree with earlier studies that state innovation provides new methods or products that provide increased differentiation strategy to outperform competitors. The findings are also consistent with earlier findings that firms' strategy and competitive advantages affect the performance of the company (Table 5 and Figure 2).

Model	Standard error	Beta	t-value	Sig	Decision
H1: Cost leadership -firm performance	0.03	0.001	1.8	.08*	Not supported
H2: Differentiation-firm performance	0.45	-0.21	2.27	.002**	supported
H3: Focus -firm performance	0.12	0.19	2.06	.004**	supported
H4: Cost leadership-Innovation	0.33	-0.32	3.4	.012**	supported
H5: Focus strategy - innovation	0.05	0.28	3.89	.001**	supported

H6	:	0.418	0.19	2.8	.003**	supported
Differentiation - innovation						
H7	:	0.13	0.282	2.46	.004**	supported
Innovation-firm performance						
*p<.05						
**p<.01						

**Table 5:** The results from the bootstrapping of the variables produced the following findings.



**Figure 2:** Final graphs confirming conceptual framework.

## Conclusion and Recommendations

In view of the prevailing competitive economic environment in Zimbabwe in the manufacturing sector, Textile and Clothing included, the study concludes that focus and differentiation be widely used as they have a direct impact on firm performance. Furthermore, innovation plays a critical mediation role especially that of enhancing

cost savings as indicated by the results and that cost leadership has a positive relation with innovation. The creation of a positive environment can enhance innovation in the sense of cost leadership, differentiation and focusing resulting in enhanced textile and Clothing manufacturing performance. This study recommends that textile and clothing manufacturing firms up the use of generic strategies to enhance firm performance. Similarly the study recommends increased innovative ways which result in improved differentiation and focused performance thereby increasing firm performance.

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