

The differentiation of competitive strategy and its effects on performance

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ABSTRACT

The objective of the study was to determine empirically how the generic differentiation strategy influences the performance of small and medium-sized enterprises. An instrument of 35 items was applied to 175 SMEs of the retail trade sector, of the Centro municipality of the state of Tabasco, for this purpose the method of the explanatory positivist paradigm was used, with an empirical research design, non-experimental, cross-sectional. The data were analyzed through inferential statistics, with a linear regression test, whose empirical results show the existence of a strong positive and significant relationship between the differentiation strategy and the performance of the companies.

Keyword: Differentiation strategy; performance; competitive strategy; small and medium-sized enterprises; firm performance.

Introduction

The international context experiences a great dynamic in the global market, today the insecurity of companies increases much more, given this situation it is necessary to develop and implement strategies that allow them to increase their profitability and even survive in the face of changes in the business environment (; Nseobot et al., 2023; Islami et al., 2020). Under these conditions, small and medium-sized enterprises (SMEs) are the weakest organizations and have "great difficulties in maintaining their competitive advantages" (. Estrada & Dutrénit, 2007) (Okreglicka et al., 2015) Estrada & Dutrénit, 2007)

The literature supports the relationship between competitive strategies and performance, mainly in businesses in the industrial sector and, to a lesser extent, in the services sector (Adiele et al., 2023; Acquaaah, 2007; Akpinar, 2020; Chirinos and Rosado 2016; Nseobot et al., 2023; (Brenes et al., 2014) Giantari and Jatra (2019). Islami et al., 2020; Leitner & Güldenber, 2010; ; (Soltanizadeh et al., 2016) Yuki & Kubo, 2023), this study focuses on businesses that only market the products purchased, where literature is scarce, given that the success and profitability of any product or company now depends on how it markets itself in a way that is different from the competition (Adiele et al. 2023) and on the high demands for consumer satisfaction, industrial companies have adopted differentiation as a generic strategy (Chirinos and Rosado 2016).

This study aimed to determine the impact of generic differentiation strategies on the performance of small and medium-sized enterprises (SMEs) in the retail trade sector in Tabasco, Mexico, in order to realize their competitive advantages over their opponents (Nseobot et al., 2023).

The document is structured as follows: in the first section, the introduction is developed, followed by section two, in which a literature review is carried out that supports the hypothesis to be tested; in section three, the research methodology is explained; In section four, the results and discussion of the research are presented, in the last section it ends with a conclusion on the determined findings.

Generic differentiation strategy

Porter (1991) is the systematic process of the activities of organizations that allows them to compete and achieve satisfactory performance (Barney, 2001).

Strategy is an element of success in business which integrates the different areas or departments Porter (1991), the ultimate goal is to maximize the benefits that the organization perceives, differentiation in the marketing area allows communication between the organization and the consumer to take a different perspective than usual, thus generating competitive advantage Sandoya et al. (2019), They explain that enhancing the marketing

strategy by diversifying them allows organizations to achieve success by framing the constant improvement of business strategies based on the opportunities that this brings them as an organization.

Empirical evidence shows that firms perform better when they use one of the generic cost leadership strategies, differentiation that I identify (Porter, 1980).

The generic strategies developed by Porter (1980; 1985) to achieve a position of competitive advantage by an organization are: product differentiation, cost leadership, and focus.

The differentiation strategy is the most widely used of these two strategic typologies. It applies various factors that lead to being more competitive than its rivals through the generation of products and services with unique characteristics that create purchase value, loyalty, and higher prices than its competitors (Acquaah, 2007; Brenes et al., 2014; Porter 1980, 1985).

In order to differentiate the product or service, various forms are presented: design or brand image, technology, customer service, network of distributors. Para (Nseobot et. to 2023; Islami et al., 2020); branding, design, and packaging; Aliqah, (2012) increase in the intensity of advertising and (Porter, 1980) *marketing*; quality of service provided, delivery time and unique packaging; development of new products, name and image (Islami et al., 2020). Marketing, innovations, and high quality Akpinar (2020); current and innovative technology (Yuki & Kubo 2023); branding (Chung et al., 2013). Reputation is a consequence of the quality of the service provided, timely delivery and original packaging Aliqah (2012); current and innovative technology (Yuki & Kubo, 2023); wide range of buyers; improve customer service or create services; to go hand in hand with technological development; continuous quality improvement; increase marketing and brand building (Thompson et al., 2018); to produce in the customer a feeling of avant-garde, quality, durable and safe products. These perceptions are amplified by advertising, image, and marketing (Acquaah, 2007). And for Dirisu et al., 2012 quality, innovations and unique characteristics.

The process of new products requires high costs of research and development and innovation and many times they can present defects, to minimize these negative effects it is necessary to know the needs of consumers, the market sector and the competition of these products; Nseobot et. to 2023). (Brenes et al., 2014)

Islami et al. (2020) found that the generic differentiation strategy is the one most used by SMEs in Ghana, and is the one with the greatest effect on increasing the performance of these businesses compared to the cost leadership strategy and focus. Analyzes within the differentiation aspects of "Development of new products/services; degree of launch of new products/services in the market; increasing the intensity of advertising and marketing; differentiation through the reduction of project time; the development and formation of sales power; the Creation of a good name and image and the Offer unique products" p. 8. On the other hand, Danso et al. (2019) state that SMEs in Ghana have a positive effect of environmental sustainability orientation on financial performance, which may be more positive for these organizations that apply the differentiation strategy, than for those that do not follow it.

Nseobot et al. (2023) determine that performance is mostly affected by differentiation in terms of aspects of the brand, followed by design and packaging, as well as the use of current and innovative technology and the high quality of the products.

According to Akpinar (2020) according to the differentiation strategy influences the choice of production site in the European automotive sector, he suggests that differentiation can be achieved through *marketing*, innovations, and high quality over its competitors, therefore, the demand for investments in these aspects is greater than if they applied the cost leadership strategy.

Leitner and Guldenberg (2010) carried out a longitudinal study of manufacturing SMEs in Austria, and found that businesses that follow a combined strategy achieved a long-term financial return equal to or greater than SMEs with differentiation strategies, given that, in this sector, cutting-edge technology and management achieve cost reduction and product differentiation at the same time.

Adiele et al. (2023) analyze market performance through sales growth and market share of domestic airlines in Nigeria, finding that the increase in market performance increases more through sales growth than with the increase in market share.

Agribusiness companies (those in the agricultural, fisheries, livestock, and forestry sectors) in emerging markets that implement the differentiation strategy achieve higher average values than businesses that do not execute any strategy or implement the cost leadership strategy. The differentiating factors used in these companies are innovation of internal processes; new products to the market and high investments in research, development and global certifications and enter new markets only if they can obtain higher prices by differentiating themselves from other producers; Established marketing skills, make use of their own brands. (Brenes et al., 2014)

According to Nseobot et al. (2023), performance is mostly affected by differentiation in terms of aspects of the brand, followed by design and packaging, as well as the use of current and innovative technology and the high quality of the products. On the other hand, Chung & Hu (2013) found that the sale by packages of products obtained a greater degree of differentiation between brands than within brands.

Acquaah (2007) states that service differentiation is significantly related to the market performance of domestic airlines in Nigeria. They also identified that by applying the cost leadership strategy and differentiation together, performance worsens.

According to Giantari and Jatra (2019), SMEs in Bali, Indonesia, in the textile sector, differentiation and innovation partially influence market orientation and business performance. Within this same clothing sector,

Yuki & Kubo (2023) state that product differentiation and innovation influences proactive market orientation, even though in this sector current and innovative technology is not an essential requirement.

From this point of view, differentiation is linked to other factors that create a true differentiation that allows positioning in the market, on the other hand, Chirinos and Rosado (2016), frame how differentiation occurs from the value chain, in order to create greater satisfaction in the consumer, it is framed in the context of industrial companies a disruptive process is created that attributes to the development of advantages competitive, these explain that improving processes based on differentiation Competitive advantages arise tacitly seeing it as a basic need of every company to be leaders in the market.

(Soltanzadeh et al., 2016) They identified that the cost leadership strategy and the differentiation strategy have a positive relationship with risk management, in the same way the latter variable has a positive relationship with the performance of the companies. When analyzing the impact of generic strategies, they determined that the differentiation strategy is not significant in terms of performance, on the contrary, cost leadership that had a significant effect on performance.

Performance

Business performance is complex and multidimensional, so its operationalization is difficult, in addition to this, organizations protect their information as confidential (; ; Richard et al. 2009). Dess & Robinson, 1984) (Dobbs & Koller, 2006)

Richard et al. (2009), defines it as "the existing performance of an organization measured in comparison with its expected results" p. 722, Granados-Echegoyen-Arcelia & Toledo-López (2016) mentions that this concept "is understood as the set of results that companies obtain in a given period" p. 74. It is used to measure the impact of a company's strategy (Giantari & Jatra, 2019).

The performance dimensions are: "(a) financial performance (earnings, return on assets, return on investment), etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder profitability (total shareholder return, economic value added, etc.)" (Richard et al. 2009, p. 272). *Marketing* performance is the achievement that the organization obtains from the internal and external performance of its products in the market, for which it is necessary to study customer demands, being an essential element in the progress of business performance (Giantari & Jatra, 2019).

Method

To carry out this study, the hypothetical deductive method was used, with an empirical research design, transversal associative strategy, since it is aimed at collecting and processing the data of the variables that can be measured and quantified and that when analyzed with statistical methods allow to verify the hypothesis raised, deduced based on a hypothetical theoretical model to be tested.

The generic differentiation strategy is analyzed and measured by applying a 13-item instrument based on the validation of the competitive factors model, the scale used is of the Likert type that indicates the level of compliance with the competitive factors of differentiation, where the scale is as follows: (1) *Never*, (2) *Rarely*, (3) *Sometimes* (4) *Frequently* and (5) *Very frequently*.

On the other hand, the performance variable is analyzed from an instrument made up of 22 items adapted from considering the dimensions of production and market performance, the non-financial and the financial with a Likert-type scale where it is requested to indicate what has been the evolution of various aspects in your company in the last three years. The scale is as follows (Gupta & Govindarajan, 1984; Hoque & James, 2000; Noordin et al., 2015; Quinnf & Rohrbaugh, 1983) : (1) *Very unfavorable situation*, (2) *Unfavorable*, (3) *Neither favorable nor unfavorable*, (4) *Favorable* and (5) *Very favorable situation*.

The instrument applies to managers and owners of 175 SMEs, with the following inclusion elements: businesses between 1 and 100 workers located in the Centro municipality of the state of Tabasco, Mexico.

The generic strategies established by (Porter, 1980, 1985) have a great contribution to the theory of strategic management, which is the one used in this research (Nseobot et al., 2023).

Whereby the hypothesis is as follows:

H1 The differentiation strategy has a positive and significant relationship with the performance of small and medium-sized enterprises.

Results

The Reliability analysis with which the reliability of the measurement scales was evaluated determines that the variable of the generic differentiation strategy has a confidence level value of .863 and that of performance is .923, both scales are interpreted as reliable (Nunnally, 1978).

Regarding the results of linear regression, the variable of the generic differentiation strategy is the explanatory variable of the linear regression and the explained variable is performance. Of the 175 subjects in the sample, SMEs perceive their performance as acceptable since it has an average of 3.86.

There is a highly significant correlation between the variables at $p < .001$, where the higher the yield, the greater the generic differentiation strategy, although the level of correlation between differentiation strategy and performance is positive and moderate ($r = 0.638$), there is no collinearity according to Pérez (2004), since it does not exceed .700. An increase in the application of the differentiation strategy leads to an increase in performance.

The model is being explained in 72% of the yield explained in a significant way with the differentiation strategy. In addition, it is observed that with 95% confidence, the predictor goes from .56 to .75 for the independent competitive strategy, explaining 51% of the variance with the performance of SMEs.

Tolerance and FIV (1.00) are within the parameters, proving the non-collinearity of the variables, with this value the non-existence of multicollinearity is verified. Likewise, the assumption of homoscedasticity is fulfilled with the Durbin Watson statistic, which is 1.94, being within the range of the parameter.

Table 1 Regression analysis for the differentiation strategy variable that explains performance

Variable	B	95% IQ	b	R2	$\Delta R2$
Differentiation strategy	.654	[.56 .75]	.72***	.51	.51***

Note. * $p < .05$; ** $p < .01$; *** $p < .001$

The generic differentiation strategy explains ($\beta = .72$, $p < .000$) the performance of SMEs in the Centro municipality. Likewise, the model explains .51% of the yield variance ($R^2 = .51$, $p < .001$).

The prediction of the generic differentiation strategy and on performance with high values is obtained significantly.

In addition, the B coefficient of 0.654 indicates that, for every improvement of 1 unit in the differentiation of the organization, the model predicts an improvement of 0.654 units in the performance of SMEs in the Central municipality of the State of Tabasco.

Discussion

In this research, it was determined that the differentiation strategy has a positive and significant effect on business performance, a situation that is consistent with (Adiele et al. 2023; Acquaaah, 2007; Chirinos & Rosado, 2016; Nseobot et al., 2023; Islami et al., 2020), so that when organizations implement the differentiation strategy, the higher their performance will be. On the other hand, this study differs from that they mention that the differentiation strategy is not significant in terms of performance, but the leadership strategy is, in the same way, Leitner and Gldenbergl (2010) mention that the combination of the differentiation strategy and cost leadership has a greater effect on performance than only when applying the differentiation strategy. for Giantari and Jatra (2019) the effect is partial between the variables. (Brenes et al., 2014) (Soltanizadeh et al., 2016)

Conclusion

The objective of the study was to empirically determine how the generic differentiation strategy influences the performance of small and medium-sized enterprises in the municipality of Centro Tabasco in Mexico. The statistical analysis allows the established hypothesis to be verified in this context and the empirical findings indicated that following the differentiation strategy has a greater impact on the increase in the company's performance, since a positive significance was obtained.

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