IS PRODUCT DIFFERENTIATION STRATEGY AN ANTECEDENT OF FIRM PERFORMANCE? EVIDENCE FROM KENYAN MOTOR VEHICLE ASSEMBLERS

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International Academic Journal of Human Resource and Business Administration (IAJHRBA) | ISSN 2518-2374

Received: 4th January 2026

Published: 29th January 2026

Full Length Research

Available Online at: https://iajournals.org/articles/iajhrba_v5_i2_62_85.pdf

Citation: Ndolo, K., Kinyua, G. M. (2026). Is product differentiation strategy an antecedent of firm performance? Evidence from kenyan motor vehicle assemblers. *International Academic Journal of Human Resource and Business Administration, 5*(2), 62-85.

ABSTRACT

The motor vehicle assembly industry in Kenya has experienced declining production volumes, low production efficiency and market share despite policies promoting local manufacturing. Customer dissatisfaction remains high leading many buyers to prefer fully built imports. This persistent shift in consumer preferences highlights the need for product differentiation to improve competitiveness and market penetration among local assemblers in Nairobi City County. This paper examined how product differentiation strategies influence the performance of firms within the motor vehicle assembling sub-sector in Kenya. The research was anchored on the the Generic Competitive Strategies Model by Porter and the Balanced Scorecard Model. The study used explanatory research design to establish causal relationship between variables. The target population comprised of 233 employees in three strata of senior, middle, and operational level management among three motor vehicle assemblers in the Nairobi City County, Kenya. Stratified random sampling method was used to achieve a proportional representation of 147 respondents. The semi-structured questionnaire was used to collect data to obtain both quantitative and qualitative analysis. The data was analyzed using SPSS in which descriptive and inferential analysis were produced and explained. The data was displayed in figures and tables. The research obtained necessary authorization from different authorities before data collection. The respondents voluntarily participated in the study where anonymity and confidentiality were maintained. The study found that product differentiation strategy had positive and significant effect on the performance of firms in the motor vehicle assembly industry in Nairobi City County. Companies should thus focus on value-based pricing that is based on the quality of the products and customer value instead of price wars.

Keywords: Strategy, Differentiation Strategy, Product Differentiation and Firm Performance.

INTRODUCTION

The global motor vehicle assembly industry is a cornerstone of economic development, technological advancement, and employment generation. In 2023, the industry was valued at approximately $3.6 trillion, with projections suggesting growth to $6.9 trillion by 2033 (G2, 2023). This expansion is driven by rising consumer demand, technological innovations, and growth in emerging markets, though challenges such as overcapacity and intense price competition persist, particularly in Europe and North America (Huges & Smith, 2023). To

maintain competitiveness, firms increasingly adopt differentiation strategies including advanced technologies, service innovation, pricing strategies, and electric vehicle production (Harsch & Festing, 2020).

In developed economies like Germany, the automotive sector has witnessed growth in production, exports, and registrations despite underutilization of capacity and a shift toward electric mobility (Financial Times, 2025; GlobalData, 2023). South Africa's automotive sector contributes significantly to GDP, manufacturing, and exports, reflecting resilience and global integration (Ikome, Laseinde & Katumba, 2022; Wessels, 2020). Conversely, emerging markets such as Nigeria and Tanzania focus on establishing local assembly facilities and aligning products with local market preferences, with differentiation strategies crucial for competitiveness (International Trade Administration, 2021; Malima & Moyo, 2023; Kafuku, 2019).

In Kenya, the motor vehicle assembly sub-sector has experienced fluctuations in sales and production due to economic uncertainty, policy shifts, and the COVID-19 pandemic. Between 2019 and 2024, vehicle sales varied significantly, reflecting a volatile market influenced by supply chain disruptions and imported vehicle competition (KNBS, 2019; KAM, 2024). Local assemblers, including Trans Africa Motors Ltd., Kenya Vehicle Manufacturers, and Isuzu East Africa, face challenges in adopting differentiation strategies to increase competitiveness, market share, and customer satisfaction (KRA, 2024; Muthoni & Kinyua, 2020; Ofafa, 2021). Firm performance measures the effectiveness and competitiveness of an organization through financial and non-financial indicators. In the motor vehicle assembly sub-sector, performance is commonly assessed through production efficiency**,** market share**,** and customer satisfaction (Muthoni & Kinyua, 2020; Mathenge, 2024; Awuor & Makhamara, 2024; Wako & Mwanzia, 2024). Production efficiency reflects cost minimization and output maximization, market share indicates competitive positioning, and customer satisfaction gauges the ability to meet consumer expectations.

Innovation adoption, including Industry 4.0 technologies and workforce training, enhances performance in these areas (Achoki, 2024; Akinyi & Ndeto, 2024; Njuguna & Juma, 2024). The Kenyan motor vehicle assembly industry began in the 1970s and has been supported by government policies, including import duty exemptions on CKD kits and the National Automotive Policy (KEBS, 2023; KEBS, 2024). Local assemblers include Trans Africa Motors Ltd., Kenya Vehicle Manufacturers, and Isuzu East Africa. Despite investments in electric vehicle assembly and international collaborations, the industry faces challenges such as low local production, rising imports, limited differentiation strategies, and fluctuating sales and market share (KRA, 2024; UNIDO, 2021; KNBS, 2021a). Enhancing production efficiency and adopting effective differentiation strategies are crucial for improving performance, customer satisfaction, and market competitiveness (KAM, 2023; KEBS, 2024).

The motor vehicle assembly sub-sector plays a strategic role in Kenya's industrialisation agenda by supporting manufacturing growth, employment creation, and technology transfer, aligning with broader national development goals such as the Big Four Agenda and Vision

2030. Government initiatives, including the Kenya National Automotive Policy, provide incentives such as import and excise duty exemptions on completely knocked-down kits to promote local assembly and reduce reliance on imported used vehicles, while also aiming to strengthen backward and forward linkages in the automotive value chain and expand local participation in component manufacturing, job creation, and contributions to gross domestic product (KRA, 2024; UNIDO, 2021; KNBS, 2021a). Despite these policy efforts and a reported increase in locally assembled vehicles, local assemblers still face competitive pressures from imports and challenges in achieving efficient production and meaningful product differentiation, making it essential for firms to adopt competitive strategies that enhance customer value, market penetration, and overall performance

Statement of the Problem

The Kenyan motor vehicle assembly industry plays a critical role in industrial development and job creation. However, between 2019 and 2024, production fluctuated from 4,406 units in 2019 to 8,677 units in 2024, while market share declined to approximately 7% (KNBS, 2024; KRA, 2024). High-end buyers exhibit dissatisfaction, preferring imported vehicles due to superior quality, durability, and features (KEBS, 2024). Previous studies indicate that differentiation strategies positively affect firm performance (Sheikh & Kiiru, 2023; Allan, Ezne, & Kibathi, 2024). However, these studies were largely limited to publicly listed firms, financial institutions, or educational contexts, leaving a gap regarding unlisted domestic manufacturing firms such as motor vehicle assemblers in Kenya. Moreover, operationalization of differentiation strategies service, product, channel, and price remains underexplored in the Kenyan context. This study sought to address these gaps by examining how product differentiation strategies influence firm performance in Nairobi's motor vehicle assembly sub-sector, providing insights for improving competitiveness, market share, and customer satisfaction in a dynamic business environment.

Sheikh and Kiiru (2023) investigated product and price differentiation strategies within firms that are listed in manufacturing and allied sector at the Nairobi securities exchange (NASE) and found out that differentiation strategies affected firm performance positively. The study was however limited on publicly listed firms, which leaves a contextual gap on the unlisted firms like in the case of motor vehicle assembling sub-sector. Sabir, Wang, and Zou (2024) discussed the issue of differentiation in multicultural classrooms, its critical importance in relation to enhancing better student engagement and performance. Operationalization of differentiation strategies in business forms the conceptual gap in the study since the study fails to look into it. Allan, Ezne, and Kibathi (2024) discussed the differentiation and hybrid strategies in deposit-taking SACCOs elements, reporting that differentiation initiatives were significantly linked with financial performance. This research study has used a quantitative method and the data gathered depended largely on the structured questionnaires that had close ended questions, therefore hampering the level of answers and the capacity to obtain further feedback out of the respondents.

EMPIRICAL LITERATURE REVIEW

Porter General Strategy of Competition Model

The model of generic competitive strategies built up by the works created by Michael Porter in 1980 is an organized system based on which the firms can reach and maintain their competitive advantage through three major strategies cost leadership, differentiation and focus (Porter, 1980). Porter asserted that companies had to pursue one or the other of them to prevail over the competition in an industry by being the cheapest cost producer, by producing differentiated products that were prized by consumers, or the focus was in a specific market niche that they served well. Subsequently, scholars have refined this model finding noteworthiness of the ideas of strategic strength and strategic scope, the former of which entails supply-side capabilities namely cost efficiency, product uniqueness, and the latter touches on market size and segmentation decisions (Abdolshah & Rokhman, 2018). Rothaermel (2021) further identified that such principles can be used by firms to match internal firms with the external market forces to realize sustainable competitive advantage, and Ali and Anwar (2021) had established the fact that due to technological changes and globalization, these principles have been used to shape the competitive nature across industries.

Categorization of the three main generic competitive strategies that a company can consider to obtain competitive advantage is the Generic Competitive Strategy Model proposed by Michael Porter in 1980 to comprise a cost leadership, a differentiation, and a focus (Porter, 1980). As discussed, the model points out that the firms need to consider being a low-cost producer, differentiating their products and services in providing unique value or providing a market segment with a good fit in order to outsmart the competitors. The values of this model also emphasize the need of an organization in ensuring the match of the internal capabilities with the external market demands to stay competitive (Islami, Mustafa & Latkovikj, 2020). By referring the principles developed by Porter to strategic management literature developments, scholars have been able to elaborate on the usefulness of the clear-cut decision made and the systematic use of a generic strategy in directly affecting performance of a firm (Torres-Teves, Caintic & De Ocampo, 2023). Moreover, Zarate, Castillo and Montoya (2025) emphasize that the principles of Porter could be applied in the highly competitive and dynamic environment, supporting the idea of the importance of the systematic adaptation of the above strategies by the firms to gain positioning.

The Model of the Balanced Scorecard

In the early 90s Robert Kaplan and David Norton provided a Balanced Scorecard Model that focused on overall performance measurement on financial and non-financial indicators so as to give the whole picture of an organization performance (Kaplan & Norton, 1990). This model was created to overcome the shortcomings of the conventional financial measures by including perceptions like customer, internal business process, learning and growth so that organizations can balance daily actions with long-term strategy (Kaplan and Norton, 1992). In the long run, Balanced Scorecard has moved beyond its performance measurement approach by revolutionizing into a strategic management system that helps organizations to translate their strategy into practical objectives and track their implementation through the various levels (Kaplan & Norton, 1996). Researchers have also improved the model, focusing on how it can

be used to incorporate the organizational vision into its transactions and generate the perpetual advancement of the organizations and its adaptation to various business-related changes (Islami, Mustafa & Topuzovska Latkovikj, 2020; Torres-Teves, Caintic & De Ocampo, 2023). Balanced Scorecard has also been identified to play a key role in making enhancements in corporate strategy and the performance management in the public sector by offering a framework of performance monitoring, strategic decision-making ability and accountability within any sector (Zairbani &Jaya Prakash, 2025).

The balanced score card model is constructed based on a number of assumptions that facilitates its use in performance management. It presupposes that organizational performance remains multidimensional, meaning that it has to balance a number of components as far as sustainable growth is concerned (Jaiswal & Thaker, 2024). The balanced scorecard model presumes that the organizations can convert strategic goals into measurable signals in terms of such perspectives as financial, customer, internal process, as well as learning, and hence aligning the strategy with operations (Sohaib, Arman, Begum & Arshi, 2024; Githuku, Kinyua & Muchemi, 2022; Willis, Kinyua & Muchemi, 2022; Mwagona & Kinyua, 2023). It assumes that constant feedback and monitoring enable organizations to change their strategies and procedure of operations in light of the changes that occur in the internal ability and external environments (Dağıdır & O Lorskan, 2024). The model presupposes that it can be successfully implemented with the organizational commitment and culture that facilitates accountability and strategic alignment, in the context that the improvements in the level of customers satisfaction and product efficiency results in better market share and overall performance of an organization (Gachagua & Kinyua, 2022; Mwarenge & Kinyua, 2022; Nzomo, Kinyua & Mwasiaji, 2023; Silva, Maldonado, da Silva & Cepeda, 2025). Performance of motor vehicle assembly sub-sector in Kenya forms this foundation in this study of the Balanced Scorecard. The indicators of organizational performance suggested by Balanced Scorecard model, including the level of customer satisfaction, increasing the market share of the company, and improving how well production can be achieved, are employed in the study (Ikome et al., 2022; Malima & Moyo, 2023). By concentrating on the desire of customers, companies manufacture superior vehicles and provide superior services even after sales that would keep customers loyal to the company. With the help of the market share viewpoint, assemblers have the opportunity to track the trends in the industry, establish more favorable prices and achieve greater competitiveness (Helmold, 2022; Bonang et al., 2025). The model allows firms to make their production more efficient, limit excess products and build a more connected supply chain. With the use of these aspects, the motor vehicle assemblers in Kenya can experience sustainable growth and enhancement in performance under competition.

Empirical Review

A report gaining recognition in product differentiation and competitiveness of micro, small, and medium enterprises (MSMEs) revealed that product differentiation and competitiveness of MSMEs in the country was high (Redjeki and Huda, 2025). Explanatory research design was applied and the researcher has studied various secondary sources in his efforts to deduce the involvement of product differentiation and positioning in the building of competitive advantage. It has been found that customer loyalty, market share and decreased dependence on

price-cutting are more of those MSMEs who can implement multiple differentiation strategies (incorporation of unique product attributes, outstanding customer relations and positioning). The researchers wanted to study MSMEs where the strategy of their differentiation could have been diverse in comparison to the large-scale industries such as manufacturing and five findings may not be generalized to any other industry. The secondary form of data collection through desktop literature review captured the interest of the study. The current research examined the Kenyan motor vehicle industry and it will incorporate both the closed questions and open-ended questions.

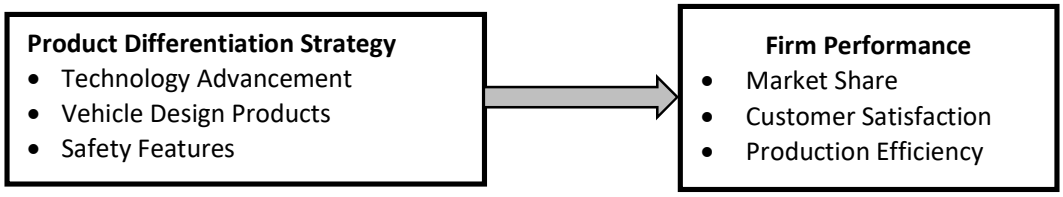
Ardika, Sadiathra, and Sanjaya (2021) carried out a field survey to establish the extent to which product differentiation and customer satisfaction determine customer loyalty in Puri Gangga Resort Ubun. The study involved survey research design in providing the data through questionnaires among the resort customers. The results showed that to a great extent, product differentiation is one of the factors that positively impact customer loyalty. Despite this, the study was conducted in the hospitality industry that is different to the manufacturing in terms of services offered and customer requirements. The current research therefore served to close this contextual gap by analysing the effect of service differentiation on the performance of firms in the motor vehicle assembling sub-sector.

In the work by Anderson, Chintagunta, Germann, and Vilcassim (2020), field experimenters examined how product differentiation influences the growth of the firm by utilizing Ugandan marketers. It was an experimental type of research design that aimed at establishing how the differentiation strategies impact on the growth indicators of the firm like monthly sales, profits obtained, and the total amount of assets. The findings indicated that those companies using differentiation strategies had above average price, profit margin and value-added per item and companies that did not use the differentiation strategy. However, the study was conducted in Uganda that poses a lapse in the contextual use of the findings to the assembling industry of motor vehicles in Kenya. The current research bridged this gap by exploring the service differentiation strategies and the impact that they have on the firm performance in the motor vehicle assembling sub-sector in Nairobi City County.

A research study reported by Chidi, Tochukwu, and Ekweli (2020) was related to the correlation of the loyalty of the customers to the product differentiation in the Anambra State soap and detergent industries of Nigeria. The article was founded on resource-based and differentiation theories that were founded on a correlation survey design. The outcomes reflected that there was a good statistical relationship between customer loyalty and product differentiation wherein high product differentiation lead to high customer loyalty. However, the study did not discuss the firm performance but consumer loyalty only hence creating a conceptual gap. It also was done in Nigeria and this provides a contextual gap in the use of the findings in Kenya. Its conceptual gap was that the measures of product differentiation were presented as the different product, product type and availability of products. The conceptual gaps identified were handled in the current research through product differentiation using the factors of the technology advancement, vehicle design products and safety features.

Conceptual Framework

This study hypothesized that product differentiation strategy has a positive effect on organization performance. Figure 1 provides a schematic representation of this relationship



Research Hypotheses

The research hypotheses of this study were;

H_0: *Product differentiation strategy has no significant effect on organization performance in Motor Vehicle Assembling Sub-Sector in Kenya*

H_1: *Product differentiation strategy has a significant effect on organization performance in Motor Vehicle Assembling Sub-Sector in Kenya*

RESEARCH METHODOLOGY

Saunders (2011) defines research design as a strategy employed by researchers to obtain clear and precise answers to study questions. Using multiple designs in a study enhances the validity and credibility of findings (Saunders, Lewis, & Thornhill, 2007).

This study adopted a cross-sectional research design to examine the relationship between product differentiation and organizational performance**.** Cross-sectional design allows the researcher to describe certain characteristics of a population at a single point in time without manipulating study variables (Lewis, 2015).

Both descriptive and explanatory research designs were used. Descriptive design enabled capturing demographic characteristics of respondents, while explanatory design examined the cause-and-effect relationship between product differentiation and organizational performance (Sekaran & Bougie, 2009; Neuman, 2006). Explanatory design is particularly appropriate when hypotheses have been developed and the researcher seeks to determine how product differentiation influences organizational performance and predicts future outcomes (Mugenda & Mugenda, 2003). The target population consisted of management personnel from three motor vehicle assembly firms in Nairobi City County, Kenya, namely: Trans Africa Motors (TAM) Ltd, Kenya Vehicle Manufacturers (KVM) and Isuzu East Africa. The unit of observation included employees at three levels of management: Top-level management**:** Managing Directors, General Managers, Middle-level management**:** Production Managers, Procurement Managers, HR Managers, Finance Managers, Quality Managers and Operational-level management**:** Assembly Engineers, Maintenance Engineers, Welding Managers, Paint Technicians.

This stratification ensured representation of perspectives from both decision-makers and operational staff, critical in determining product differentiation strategies and their impact on organizational performance.

Table 1: Distribution of Target Population

Category	Senior Level	Middle Level	Operational Level	Total	Proportion
TAM	5	23	34	62	26.61%
KVM	7	26	43	76	32.62%
Isuzu East Africa	9	31	55	95	40.77%
Total	21	80	132	233	100%

Source: Human Resource Departments (2025)

A stratified proportionate sampling technique was employed to obtain a representative sample. The Yamane (1967) formula was used to calculate the sample size given that it offers an easy and a dependable way of determining a suitable sample size of a known population, with a given margin of error. It makes the sample chosen representative, and it is possible to generalize the results to the whole population. The formula enables one to balance statistical accuracy with practicalities such as time and cost to help regulate sampling error and improve the reliability and validity of the study findings, which makes it a common instrument used in academic research.

$$n = \frac{N}{1 + N(e)^2}$$

Where:

N=target proportion
n= sample size
e= level of precision

In this case;

$n = 233/1+233\ (0.05)^2$
$=147$

The sampling factor for proportionate stratified sampling was determined as illustrated below.

Sampling Factor (p) = Sample Size (n)/Population Size (N)
= 147/233
= 0.63

The sampling proportion was used in determining the distribution of the sample across the established strata of management as displayed in Table 2.

Table 2: Sample Distribution

Category	Population (N)	Sample Factor (p)	Sample Size (n)	Proportion
Top Level Management	62	0.63	39	26.53%
Middle Level Management	76	0.63	48	32.65%
Operational Level	95	0.63	60	40.82%
Total	233	0.63	147	100%

Source: Researcher (2025)

The top-level management comprised 62 individuals and the sample will be 39 representing 26.53%. Middle level management consisted of 76 people, 48 of the selected subjects made up 32.65 percent. The highest number was 95 individuals and 60 sampled making 40.82 at the operational level staff.

Semi-structured questionnaire was used in the study bearing in mind that the population can read, understand and write effectively. This was a plus to the researcher as the information that gathered was accurate and indicative of the research aims. The instrument was quantified in a five-point likert scale where the respondents were asked to show the extent to which they agreed to the statements given. This is a better method since it gives the respondents a chance to answer most or all questions that have been emphasized in the questionnaire, thus, increasing the reliability of the data acquired (Barua, 2013). Moreover, the Likert scale had an interval measurement characteristic, which means that it is simple to analyze the responses with typical statistical methods. It is imperative to use this systematic method when considering whether the data obtained can be used to answer the questions posed by the study (Mugenda & Mugenda, 2019).

Face validity was ascertained through expert review by supervisors and faculty members. Content validity**:** Ensured by aligning items with literature on product differentiation and organizational performance (Drost, 2011). Construct validity: Verified by linking questionnaire items to theoretical concepts and empirical studies (Bolenius, 2011). Criterion validity: Ensured by comparing instrument measures with expected outcomes from prior studies (Tavakol & Dennick, 2011). Cronbach's Alpha (α) was used to test internal consistency. A threshold of 0.7 was adopted (Sekaran & Bougie, 2013).

In contrast, 15 administrative assistants were engaged to support data collection for the pilot testing of the survey instrument. The pilot study was intended to aid in the assessment of the reliability of the research instrument. According to Bhattachere (2012), reliability basically examines whether the instrument used in assessment will give the same results when the same type of subjects is administered in the same environment the second time around. The focus of reliability testing is the evaluation of the internal consistency of test items for a given research construct. A Cronbach Alpha of 0.7 and higher was acceptable in the study as suggested by Drost (2011) on internal consistency and used in previous empirical studies (Ndiwa & Kinyua, 2024; Kabera &Kinyua, 2024; Kela-Kahingo, Kinyua & Muchemi, 2024). The results of analysis of the pilot data are displayed in Table 3.

Table 3: Reliability Test Results

Variable	No. of Items	Cronbach's Alpha (α)	Interpretation
Product Differentiation	7	0.846	Reliable
Firm Performance	8	0.873	Reliable

Source: Pilot Data (2025)

Based on the findings in Table 3.3, the Cronbach's Alpha of all the research construct exceeded the set benchmark of 0.7. In particular, the seven items that signified product differentiation had an internal consistency of 0.846. Conversely, the eight items that depicted firm performance had a Cronbach's Alpha coefficient of 0.873. Collectively, the coefficient revealed for both the independent and dependent variables indicated acceptable levels of reliability for undertaking the final study.

Data was gathered through the use of drop-and -pick later method. The questionnaires were distributed to the target respondents with the help of trained data collection assistants. Follow-up measures were instituted to ensure the responses rate was with the range that support inferential analysis.

Quantitative data were analyzed using SPSS version 27. Means and standard deviations were used to summarize responses obtained from the Likert-scale questionnaire, while inferential analysis involved the application of multiple linear regression to assess the influence of product differentiation on firm performance. The regression model adopted for the study is presented as:

$$Y = \beta o + \beta \iota X + \varepsilon$$

Where:

Y=Firm Performance
X=Product Differentiation
β_o, β_i *= Beta Coefficients*
ε*=Error Term*

The regression decision criteria were assessed at a 5 percent significance threshold ($p < 0.05$). The findings were organized and displayed using tables, figures, and charts to enhance clarity and support accurate interpretation. Qualitative data from open-ended items were analyzed using content analysis to identify emerging patterns and themes.

The study adhered to established ethical guidelines throughout the research process. Participants were informed about the purpose of the study, assured of confidentiality, and allowed to withdraw at any stage without any negative consequences. Informed consent was obtained prior to data collection, and all information provided was treated anonymously and used solely for academic purposes. Data collection was carried out after securing the required authorization from the relevant authorities.

RESEARCH FINDINGS AND DISCUSSIONS

Response Rate

The following table presents the response rate. The categories of the employees targeted were top level managers who consisted of managing director and general manager, middle level management consisted of human resource manager, production manager, procurement manager, finance manager and quality and logistics manager while the managers at the operational level included paint technician manager, welding manager, maintenance engineer, assembly engineer and administrative functions manager.

Table 4: Response Rate

Category	Distributed Questionnaires (n)	Returned Questionnaires (n)	Response Rate (%)
Top Level Management	39	31	79.49%
Middle Level Management	48	39	81.25%
Operational Level	60	49	81.67%
Total	147	119	81.00%

A total of 147 questionnaires were distributed to respondents drawn from top, middle, and operational levels of management within the three selected motor vehicle assemblers in Nairobi City County. Out of these, 119 questionnaires were correctly filled and returned, representing a response rate of 81 percent. According to Mugenda and Mugenda (2013), a response rate of 70 percent and above is considered adequate for data analysis and reporting. The response rate achieved in this study was therefore deemed satisfactory and sufficient for making reliable inferences about the target population. The high response rate was attributed to effective follow-ups and the researcher's engagement with contact persons in each firm, which enhanced participation among the respondents.

Descriptive Statistics on Product Differentiation Strategy

The concept of product differentiation strategy describes the conscious attempt of the organization to make its products stand out among the competitors based on their distinctive characteristics, quality enhancement, design creativity, and innovations in technologies. It is keen on developing products that do not only meet the functional superiority but also meet the current needs and preferences of various segments of the market. In the motor vehicle assembly industry, product differentiation will include technological advancement, design tailoring, environmental friendliness, as well as, customer relations responsiveness. With the focus on these aspects, companies aim at improving brand perception, customer satisfaction and general competitiveness in the market. The evaluation of the product differentiation in this section was based on the technological integration, product innovation, eco-friendly, and customer-oriented design processes. Table 4.4 shows a summary of the results of these aspects.

Table 5: Product Differentiation Strategy

Statements	M	SD	CV (%)
The vehicles reflect the latest technology in the industry.	4.102	0.496	12.09
The vehicle designs are tailored to different market segments.	4.000	0.512	12.80
Safety features in the vehicles are user-friendly.	3.910	0.534	13.65
Continuous innovation is embraced in the vehicle design process.	4.115	0.475	11.54
The firm's products are distinguishable from those of competitors.	3.954	0.486	12.29
The firm updates vehicle features based on customer feedback.	3.887	0.501	12.89
The product line includes entry-level options.	3.921	0.542	13.82
The product line includes luxury options.	3.865	0.553	14.31
The firm is compliant with environmentally friendly technologies.	3.990	0.521	13.06
The company invests heavily in Research and Development to improve product quality.	4.027	0.479	11.89
Aggregate Score	**3.977**	**0.510**	**12.83**

Source: Field Observations (2025)

The outcomes of the observations conducted on the quantifiable elements of the product differentiation strategy in the shape of Table 6 offer some insights into how the motor vehicle assembly companies in the Nairobi City County incorporate distinctiveness and innovation in their product lines. The overall average of 3.977 and a comparatively low standard deviation of 0.510 means that the respondents largely concurred that the firms have adopted product differentiation strategies to a great extent. The fact that there was a low deviation in responses means that the perceptions were more or less similar to the sampled employees, indicating homogenous practices in various firms in the industry.

The coefficient of variation (CV) findings in Table 4.4 indicate that the responses on product differentiation practices were mostly consistent with an overall CV of 12.83 percent. This low standard of variance shows that the respondents shared quite similar perceptions of the manner in which product differentiation is practiced within the organization. The lowest CV of 11.54 percent was attained in the statement that continuous innovation is adopted in the design of vehicles, implying that there is a high level of agreement among the respondents that innovation is one of the areas of focus. On the same note, the high consistency of opinions was seen in investment in research and development (CV = 11.89%) and incorporation of new technology in vehicles (CV = 12.09). On the other hand, the best CV of 14.31 percent was associated with the presence of luxury options, which means that the respondents had slightly different opinions on the degree to which the company serves the high-end market segments. On the whole, the findings suggest that the product differentiation strategies of the firm are well-informed and are implemented in its operations on a regular basis.

The most significant mean score was found in the statement that it has adopted continuous innovation in the process of designing vehicles (M = 4.115, SD = 0.475). This provides that innovation is the key ingredient in product competitiveness. This finding aligns with the findings of Anderson, Chintagunta, Germann, and Vilcassim (2020), who discovered that companies that are constantly developing their products have a greater profit margin, high value

add, and growth potential. Equally, the observation that cars are the embodiment of new technology in the market (M = 4.102, SD = 0.496) suggests that technical progress is a necessary cause of differentiation and competitiveness. This is in line with Redjeki and Huda (2025) which realized that MSMEs that use advanced technology, design of products improves customer loyalty and positioning in the marketplace.

Investment in research and development (M = 4.027, SD = 0.479) was the other highly rated aspect, and it showed that the company is heavily invested in the improvement and innovation of its products. The discovery favors Ardika, Sadiathra, and Sanjaya (2021) who have developed that product differentiation based on innovation and customer satisfaction can have a great impact on customer loyalty and firm competitiveness. Similarly, the observation that vehicle design is specially designed to suit various segments (M = 4.000, SD = 0.512) proves the fact that market-based differentiation is a fundamental differentiation tool amongst vehicle assemblers.

Conversely, the minimum mean was obtained in the statement according to which the product line is equipped with luxurious options (M = 3.865, SD = 0.553). This is still positive, but it means that the diversification of the luxury markets is moderately practiced, perhaps because of the increased costs and low demand of luxury segments. On the same note, the overall score of responding to customer feedbacks on updating vehicle features (M = 3.887, SD = 0.501) shows that feedback mechanisms are in place but it can be argued that feedback integration in product development cycles can be done faster and more responsive. This point is in line with the findings of Chidi, Tochukwu, and Ekweli (2020) that responsive product differentiation, which is consistent with consumer preferences and market dynamics enhances customer loyalty.

The descriptive measures, on the average, indicate that product differentiation strategy is a constituent of competitiveness in motor vehicle assembly industry in Kenya. The firms depict high technological capability, continuous innovation and research-based practices which differentiate their products with the competition. These findings support the idea that product differentiation boosts the performance of firms by increasing the level of customer satisfaction, loyalty, and market share, which is in line with the empirical data presented by Redjeki and Huda (2025) and Anderson et al. (2020).

In the case of the open-ended responses with respect to the role of technology in improving the product offerings of the company, the majority of the people who responded indicated that technology enables the incorporation of modern features, improves vehicle safety, increases its fuel efficiency, and assists in environmentally friendly designs. As pointed out by the respondents, the new technologies, including the hybrid and electric vehicle systems, enable firms to respond to emerging customer demands and balance global environmental requirements. These findings are consistent with those of Anderson et al. (2020), who observed that technological innovation is an independent cause of increased product value and competitiveness of the firm. Therefore, technology was generally understood as the source of

the differentiation and another important aspect in the sustainable growth of the motor vehicle assemblers in Kenya.

Firm Performance

Firm performance is the level at which an organization attains its strategic and operational goals that assess its efficiency, profitability, standing in the market and its satisfaction with customers. The performance of firms in the motor vehicle assembly subsector in Kenya is commonly measured using measures like market share development, customer loyalty, sales volume, product quality, and efficiency in running the company. All of these steps are evidence of the company managing to remain competitive, retain client loyalty and reach production goals in a volatile business environment.

This section outlines and manages the outcomes of the research on the performance of firms amongst the motor vehicle assembly firms. The results have been obtained as a result of the answers to key performance indicators, where the mean and standard deviation score are calculated to ascertain the level to which respondents concurred with the statements listed. The findings give an idea of how successful the operations of the involved companies are, customer satisfaction, and their strategic growth.

Table 6: Firm Performance

Statements	M	SD	CV (%)
The firm has recorded an increase in market share in recent years.	3.752	0.498	13.27
Customers are generally satisfied with company services.	3.687	0.511	13.86
Customers are generally satisfied with company products.	3.721	0.523	14.06
Customer complaints are well-addressed.	3.456	0.534	15.46
The company has maintained a loyal customer base.	3.668	0.487	13.28
The vehicle models are energy-efficient.	3.511	0.563	16.03
The firm receives positive feedback on vehicle performance.	3.732	0.495	13.26
There has been consistent growth in sales volumes.	3.745	0.476	12.71
There has been a significant reduction in product defect rates.	3.321	0.549	16.53
The firm meets production targets consistently.	3.612	0.524	14.50
Aggregate Mean Score	**3.621**	**0.516**	**14.25**

The tabulated statements concerning the firm performance were assessed into summary measures of mean and standard deviation to give a base on which to conduct further statistical analysis. The general mean of 3.621 and the standard deviation of 0.516 shows that the motor vehicle assembly firms in Nairobi City County have moderate to high performance. It demonstrates that the companies are relatively doing well in terms of customer satisfaction, sales growth, product quality and operational stability, but there are still some areas of performance gaps that the managers should consider.

Table 7 results of the coefficient of variation indicate that there is a moderate degree of variation in the respondents' perceptions about the performance of firms with a total CV of

14.25 percent. The variability is not very high, which indicates that the perceptions of the participants were quite similar, albeit somewhat more scattered than in the case of other constructs. The smallest CV of 12.71 percent of the consistent sales growth shows a high level of agreement that the sales volumes of the firm have been on a steady rise. On the same note, positive feedback on vehicle performance (CV = 13.26) and market share increase (CV = 13.27) had little variation, which suggests that there was no change in the perceptions of performance and market share. On the other hand, product defect reduction (16.53) and vehicle energy efficiency (16.03) were rated higher, as people had more varied opinions on production quality and sustainability efforts. Overall, the findings indicate that the overall performance of the firm is viewed positively, although there is some discrepancy in the opinion about the improvement in the efficiency of operations and the quality of products.

The most positive point was that the company has achieved a growth of market share during the past few years (M = 3.752, SD = 0.498). This means that the majority of the companies have been in a position to increase their market coverage and build their standing by employing strategic marketing, better products and pricing that is competitive. The outcome indicates that the motor vehicle assemblers are responsive to the trend and consumer demand in the market. Kim and Mauborgne (2020) note that value innovation and differentiation focus organizations will have higher chances to occupy untapped market segments and maintain growth in the market share.

The findings also indicate that the volume of sales has been on an upward trend (M = 3.745, SD = 0.476), which means that the companies have been able to sustain the revenue streams in the long run. This expansion can be given by the diversification of products, brand loyalty and proper promotion policies. Kotler and Keller (2021) underline that the increase in sales on a continuous basis is an indicator of market responsiveness and effective customer relationship management model. The trend in the performance of the motor vehicle firms implies that the firms are performing well in aligning the production and marketing activities with the customer expectations.

Customers are also pleased with the performance of the vehicles (M = 3.732, SD = 0.495) though this implies that the firm has performed well in terms of quality, reliability, and durability of the vehicles manufactured. This shows that the companies have invested in quality assurance mechanisms and adopted the technological innovations to improve the standards of performance. As Grant (2019) observed, customer feedback included into the production process on a regular basis helps companies to reinforce their product quality and raise the levels of customer loyalty.

The level of customer satisfaction was moderate as the customers are usually satisfied with company products (M = 3.721, SD = 0.523) and services (M = 3.687, SD = 0.511). These results reveal that customer satisfaction is not exceptional but more than average. This might imply that area of service delivery, including response time and after sales services, are yet to be enhanced. According to Parasuraman, Zeithaml, and Berry (2020) the quality of service

offered and responsiveness is also the main determinant of customer loyalty and retention, and these findings suggest that the companies have to improve in these aspects.

The customer base has been steady (M = 3.668, SD = 0.487), and this has implied that consistent product performance and brand reliability have been the key factor in maintaining customer relationships with the company and the likelihood of a repeat purchase. This observation is consistent with the results of the study by Reichheld and Sasser (2021), who noted that loyal customers are a valuable profit driver because they lower marketing expenses and promote through the word of mouth. Hence, the issue of retaining loyalty is one of the strategic interests of the long-term development in the vehicle assembly sphere.

The car models are economical (M= 3.511, SD= 0.563) with a moderate movement towards sustainable production and fuel efficiency. Although companies have been trying to create energy-efficient cars, they can still do better in terms of implementation of environmentally friendly technologies. Porter and Kramer (2019) have noted that sustainability-oriented innovations are not only more effective to enhance brand image but also cost effective and more profitable in the long term. Production of energy efficient vehicles is in line with the sustainable trends around the world and national environmental policies in the Kenyan context. The company achieves production levels constantly (M = 3.612, SD = 0.524), which implies efficiency in operations and appropriate organization of production. This indicates that there was good handling of production schedules, inventory and resource distribution. According to Barney and Hesterly (2020), the regular delivery of production targets is one of the primary indicators of high internal coordination, optimization of processes and supply chain management. Nevertheless, due to the dynamics of the global supply chains, there is a possibility that, sometimes, disruptions can be problematic.

The statements with lower rating where customer complaints are well-addressed (M = 3.456, SD = 0.534) and the product defect rates have significantly decreased (M = 3.321, SD = 0.549). The findings point to the fact that the firms have some difficulties with responding to complaints and sustaining quality control. As Anderson and Srinivasan (2020) note, the lack of success in handling complaints and defects in a product can lead to a lack of customer trust and brand image. Thus, the results indicate that companies ought to reinforce their post-sale support networks, high quality communication systems and increase quality assurance procedures to enhance customer satisfaction.

The responses were open-ended and they yielded more information about the performance of the firms. The respondents pointed out that companies have started employing flexible pricing systems, installments plan, and promotional discounts to appeal to various types of customers. They further noted that companies are investing more in customer relationship management systems and growing their chains of dealerships and also increasing digital interaction by use of online platforms. Other respondents noted that the customer satisfaction and customer retention have increased greatly due to the initiation of fuel-efficient vehicle models and enhancements in after-sales services.

Linear Regression Analysis Output

The analysis will look at the overall and the individual effect of product differentiation on the performance of the firms. The regression results, the model summary and the ANOVA results present a statistical foundation of the relationship between the product differentiation strategies and organizational performance.

Table 7: Output on Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.764[a]	.583	.568	1.761	2.351

a. Predictors: (Constant), Product differentiation

Table 7 presents the model summary for the regression analysis examining the effect of product differentiation strategies on firm performance among motor vehicle assembly companies in Nairobi City County. The adjusted coefficient of determination (Adjusted R^2) is 0.568, indicating that approximately 56.8% of the variations in firm performance can be explained by influence of product differentiation. This adjusted value, which takes into account the number of predictors in the model, demonstrates that the explanatory power remains strong even after correcting for possible overestimation that may arise when additional independent variables are introduced.

The coefficient of determination (R^2) of 0.583 further reinforces that product differentiation strategies collectively account for a substantial portion of performance variations, though the adjusted R^2 provides a more conservative and reliable estimate of the model's explanatory strength. The correlation coefficient (R) of 0.764 reveals a robust positive association between differentiation strategies and firm performance, suggesting that as firms enhance their differentiation efforts, performance outcomes improve significantly.

Table 8: Output of ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	494.203	4	123.551	39.850	.000[b]
	Residual	353.444	114	3.100		
	Total	847.647	118			

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), Product differentiation

Table 8 shows the results of ANOVA of the regression model used to evaluate the effect of product differentiation strategies on the performance of the firm. The obtained results give a value of F-statistic 39.850 and the significant level of 0.000, which is lower than 0.05.

Table 9: Output of the Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.836	.768		.888	.000
	Product differentiation	.717	.117	.443	6.105	.000

a. Dependent Variable: Firm Performance

The model obtained the following regression equation:

Firm Performance = 2.836 + 0.717Product Differentiation

The positive and highly significant impact on firm performance was also on product differentiation, where the beta coefficient is 0.717 and the p-value is 0.000. This implies that the launch of new and distinctive, quality and technologically superior vehicle models helps in enhancing performance. The implication of the finding is that companies that constantly innovate the design of their products, incorporate safety, and improve efficiency can attain better results in the market. This is in line with the results of Anderson, Chintagunta, Germann, and Vilcassim (2020), who discovered that companies that used product differentiation strategies in Uganda were more profitable and had increased sales. On the same note, Chidi, Tochukwu, and Ekweli (2020) noted that companies that have a high level of product uniqueness are likely to have high customer loyalty levels. All these studies confirm that product differentiation is a crucial force of competitiveness and profitability in the motor vehicle assembly industry. The findings align with **contingency theory** in that they demonstrate how the effectiveness of product differentiation strategies on firm performance depends on the organization's ability to adapt its innovation, design, and technological features to fit the specific environmental and market conditions it operates in (Lizzy, 2024).

Conclusion

The objective was to establish the effect of product differentiation on performance of firms. The findings indicated that the effect of product differentiation on performance is positive and significant. Companies which constantly innovate, enhance the quality of their products, and add technological and safety aspects to it will probably be more successful in terms of sales increase and customer satisfaction. It was also concluded that product differentiation increases the competitive advantage and profitability of a firm.

Policy and Practical Recommendations

The findings were used to give a number of recommendations in terms of managerial and policy application in the motor vehicle assembly industry in Nairobi City County. As far as product differentiation is concerned, the firms are encouraged to put much money in research and development in order to develop innovative, energy efficient and technologically advanced models of vehicles. Market surveys should also be carried out regularly to detect new consumer preferences to ensure that firms are able to adjust their products according to the emerging new needs in the market. Innovation and product uniqueness can also be encouraged with the help of strategic alliances with technology companies.

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