

CHAPTER I

Introduction

1.1 General background

Strategy is the direction and scope of an organization on a long-term basis. It ideally matches its resources to the changing environment. Particularly, it is a key planning tool for running an organization smoothly and effectively to achieve its goal for survival and growth for a long duration of time. It is regarded as the most important tool of top management to cope with external environmental challenges. Strategy is necessary to anticipate the areas in which the greatest changes are likely to occur and to make business plans gel with these changes. All organizations need some strategies to deal with the challenges emerging from increasing competition in different services and manufacturing industries around the globe. Due to globalization changes keep on occurring in economic and political system. On the top of that the latest advancement in information technology, the aggressive competition is rising. Organizations need to be engaged in examining strategic alternatives such as acquisition, diversification, expansion, restructuring, networking, transformation of knowledge and skills in order to stay ahead of the competition and maintain long-term sustainability. After examining these alternatives, the firm has to select the best strategic alternative to run the organization both structurally and financially. The right choice helps the firm work out how resources are allocated to implement the given alternatives. At the same time, changes in the internal management system are required to make the best fit with the strategy to achieve strategic objectives. All these actions are regarded as parts of strategy and they help a business firm to achieve competitive advantages in the market.

The strategic typology developed by Porter (1980), has dominated the strategic management literature as a means of establishing strategic group membership at the business level. Porter (1980), reveals that there are two types of competitive advantages- cost leadership and differentiation, and both are called “generic strategy”. A third generic strategy is a subset of the other two that focuses on cost focus or differentiation focus or both. The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. In contrast, the differentiation focus and cost focus strategy are adopted in a narrow market or industry. Strategic typology has been one of the most widely accepted methods for discussing,

categorizing, and selecting company strategies (Porter, 1980). His novel idea about strategies can be classified into generic types: differentiation, cost leadership, focus or combination. These strategic components have been the basis for much of the strategy research and practice in the past three decades. Porter contends that by implementing one of these strategies, a company will have a competitive advantage and above average industry returns. The generic strategies, therefore, are the focal points of a strategic move.

Business may not be able to sustain either of these strategies across the whole industry, where it can command a sustainable competitive advantage. To put it in other words, sustainable competitive advantage can only be achieved by either being a low cost supplier or by differentiating the product so as to achieve a higher selling price. Although studies are not always agreed on the best strategy, or strategy combination, most of the studies support long-term benefits of strategic planning for the successful performance of an organization or a business unit. Most of the studies on organizational performance use a variety of financial and non-financial success measures. Some studies employ financial measures such as profit (Saunders & Wong, 1985; Hooley & Lynch, 1985; Banker, Mashruwala, & Tripathy, 2006), turnover (Frazier & Howell, 1983), return on investment (Hooley & Lynch, 1985), return on capital employed (Banker *et al.*, 2006), and inventory turnover (Frazier & Howell, 1983).

Non-financial measures include innovativeness (Goldsmith & Clutterbuck, 1984) and market standing (Saunders & Wong, 1985; Hooley & Lynch, 1985). Some studies on Baker and Hart (1989); Buckley, Pass and Prescott, (1988); Frazier and Howell (1983) argued that the performance is measured at a variety of levels (e.g. national, industry, company, and product), comparison of results is difficult.

Measures of firm performance generally include such bottom-line, financial indicators such as sales, profits, cash flows, return on equity, and growth. It is important to determine how a firm compares with its industry competitors when assessing firm performance (Dess & Robinson, 1984). In the competitive environments of different kinds faced by firms in different industries, knowing only absolute financial numbers such as sales, profits, or cash is not very illuminating unless it is viewed in the context of how well the firm is doing compared to its competitors. Therefore, it is important to use an industry comparison approach while making firm performance assessments for

organizations. Besides, there is a further need to examine the competitive advantage of cost leadership and flows differentiation to sustain financial performance in Nepalese enterprises.

Firms adopting a cost leadership strategy aim to increase market share based on creating a low-cost position relative to their peers. Cost leadership may be achieved through large volume manufacturing by utilizing economies of scale, process improvements, cost minimization, total quality management, just-in-time manufacturing, benchmarking, overhead control, etc. Conversely, a differentiation strategy may be achieved by investing in developing products or services that offer exceptional characteristics that the customers desire, enabling the firm to command premium prices. There exists a gap of the study with regard to capital market valuation in firm strategies in Nepalese context. This study seeks to fill in the gap.

In next dimension, this study highlights on the implications of firm strategy affecting the bankruptcy risk. Firms that successfully implement either cost leadership or differentiation will be able to outperform competitors and achieve superior contemporaneous performance. Since superior performance is very closely linked to lower bankruptcy risk, successful implementation of generic strategy maintains lower bankruptcy risk. Balsam, Fernando and Tripathy (2011) show that pursuing the strategies successfully is related to lower bankruptcy risk. This study, hence, focuses on the analysis of the impact of generic strategy to increase on a firm's productivity to reduce bankruptcy risk in Nepalese enterprises.

Combining the two lines of literature about asymmetric cost behavior and business strategy assumes that differentiators should reflect on a higher degree of cost stickiness relative to cost leaders as differentiators have to face higher adjustment costs. Furthermore, Banket, Byzalov, Ciftci and Mashruwala (2013), hereafter BBCM, posit that managerial expectation about future sales will affect firms' asymmetric cost behavior (henceforth BBCM). Following BBCM (2013), it is hypothesized that managerial optimism (pessimism), operationalized by a pattern of prior period sales increases (decreases), will moderate the functional relationship between a firm's strategic position and its cost stickiness or anti-stickiness. More specifically, in an optimistic scenario, the differentiators exhibit a higher degree of cost stickiness; while in a pessimistic scenario cost leaders reflect a higher degree of cost anti-stickiness.

There also exists a gap in regard to the hereby mentioned ideas in the context of Nepalese enterprises.

Quality is the totality of features of a unit as regards its suitability to meet specified and expected requirements. Quality is a primary basis for differentiation strategy as firms adopting this strategy will uniquely position their products based on several attributes leading to a premium price (Porter, 1980). The study specifically suggests that quality creates a differentiation point which separates, even insulates, a firm from competitive rivalry by creating customer loyalty as well as lowering price sensitivity. In this way, the firm is protected from competitive forces that reduce profitability.

Similarly, Philips and Chang, Lin, Yang, and Sheu (1983), note that among the many sources of differentiation, quality is the approach that most often characterizes a differentiation strategy. They also take notice of the conventional wisdom that suggests an incompatibility between high quality products and low cost for the reason that quality usually requires more expensive materials and processes, which were not supported under a cost leadership regime. This school of thought, however, does not totally neglect the link between high quality and low cost. High quality products will eventually result in lower costs after the firm attaining benefits on economies of scale via higher market share (Kroll, Wright & Heiens, 1999; Philips, Chang & Buzzell, 1983). Porter's (1985), generic strategies of low cost, differentiation, focus and combination strategies are generally accepted as strategic typologies for organizations. This study has identified the strategic practices associated with each generic strategy. Furthermore, previous study has not identified critical strategic practices for each generic strategy to a firm's performance.

Long-term sustainability of financial and non-financial performance of an organization depends on strategic choice either in the perspective of manufacturing and non-manufacturing organizations. Organizations achieve competitive advantage either through cost leadership or differentiation strategy to sustain financial performance for a long duration. Similarly, quality is predicted by either differentiation or cost leadership strategy. Specific strategic practice (either cost leadership strategy or differentiation strategy) has significant role in organizational performance. Organization's performance is affected by its market perception, productivity and asymmetric cost behavior. In this respect, the study is devoted to generic strategies and organizational performance with regards to financial and non-financial performance of selected enterprises.

1.2 Statement of the problem

Financial performance is sustained over time equally for the two types of strategies. A stream of literature maintains that whether a competitive advantage can be sustained that depends on the possibility of competitors being able to imitate the position of advantage (e.g. Ghemawat, 1986, 1999; Barney, 1991). If a competitive advantage can be easily imitated by competitor, this advantage would dissipate over time. Porter (1996), puts forward the notion that simply performing similar activities better than rivals will not lead to sustainability of performance as the rapid diffusion of best practices will allow competitors to quickly imitate management techniques, new technologies and input improvements. Since sources of operational efficiency can often be imitated by competitors, while cost leadership may provide short-term benefits in financial performance, such benefit may not sustain. Differentiation strategy is better than cost leadership to sustain financial performance (Banker *et al.*, 2006). The views of senior officers of Nepalese commercial banks reveal that differentiation strategy is better than cost leadership to increase financial performance (Bhattarai, 2010) but there is still a gap in the study of impact on generic strategy on financial performance in Nepalese enterprises. Hence, this study finds out whether cost leadership or differentiation strategy is necessary to increase financial performance in the listed manufacturing and hotel enterprises of Nepal.

Porter (1980), suggests that firms with competitive advantages based on either cost leadership or differentiation are able to outperform than others. Porter (1996, 2001), further argue that technological innovations that permit the rapid diffusion of the best practices make some operational improvements that enhance cost leadership easily imitable. In the same vein, Ghemawat (1986), argues that some forms of competitive advantage are difficult to imitate and can therefore lead to sustained superior performance. In additional tests, it examines whether capital markets recognize this difference in the sustainability of performance and price the shares of these firms accordingly. To achieve cost leadership, a firm must perform activities like creating, producing, selling and delivering products and services faster, cheaper, and with fewer inputs than their rivals. Firms can adopt different tactics to achieve cost leadership: large scale facilities, process improvements, cost minimization, total quality management (TQM), benchmarking, and overhead control. Cost leaders can achieve

above-average returns by charging low prices for their products and seeking out customers who care more about price than about image or novelty. The competitive advantage through adopting such a strategy is temporary and long-term sustained profitability is not feasible (Eisenhardt & Brown, 1998; Eisenhardt & Martin, 2000). On the other hand, firms adopting the differentiation strategy achieve a competitive advantage by providing products or services that offer unique qualities desirable to customers which allow them to command a price premium. They are able to generate superior performance over long time frames (e.g., Wiggins & Ruefli, 2002). Cost leadership strategy is better than differentiation to sustain financial performance of the commercial banks of Nepal (Bhattarai, 2012). Study of competitive advantage of generic strategies to sustain financial performance of Nepalese enterprises is still a far cry. Therefore, this study places the spotlight on competitive advantage of generic strategies i.e. cost leadership or differentiation to sustain financial performance on a long-term basis.

Lusch and Laczniak (1989) define business performance as the total economic results of the activities undertaken by an organization. Walker and Ruekert (1987) have found that primary dimensions of business performance could be grouped into the three categories of effectiveness, efficiency, and adaptability. Hybrid strategies are clearly preferable compared to pure ones. (Spanos, Zaralis & Liouka, 2004). Similarly, a list of critical strategic practices is significantly associated with organizational performance for each of Porter's generic strategies (Allen & Helms, 2002). Capital markets reward firms pursuing either of these strategies; however, it values firms pursuing differentiation higher than that of cost leadership strategy. High differentiation firms generate greater abnormal returns compared to a similar strategy of buying high cost leadership firms (Asdemir, Fernando & Tripathy, 2013). There is a positive and significant relationship between cost leadership strategy and return on equity in life insurance company (Maharjan, 2011). However, no such studies exist with regard to strategic practices in Nepalese enterprises to measure the perception of Nepalese capital markets.

Productivity at its most basic is the ratio of outputs to inputs and demonstrates how proficiently a firm uses its inputs (raw material, assets and people) to generate output. The firm that is able to generate a unit of production using lower inputs than

competitors (or alternatively use the same inputs to produce a greater output) will be able to either generate superior profits or lower their selling prices to drive out competitors. In either case, superior productivity will reduce bankruptcy risk. Altman (1968), Ohlson (1980), Zmijewski (1984), and Hillegeist, Keating, Cram and Lundstedt, (2004) and others show that the accounting information available prior to a bankruptcy filing predicts whether a firm will file for bankruptcy protection. Firms that follow cost leadership have higher productivity. Moreover, this study finds that higher levels of productivity result in lower bankruptcy risk. Cost leadership successfully results in lower bankruptcy risk (Banker, Flasher & Zhang, 2013). Hence, this study discovers that cost leadership strategy tends to increase productivity which in turn, leads to the decrease in bankruptcy risk. Regarding Nepalese enterprises, the study of the impacts of generic strategy to reduce bankruptcy risk has not been done yet.

Altman Z-score has been used to proxy for many bankruptcy related measures. Piotroski (2000), uses the Altman Z-score to proxy for financial distress and Elliott, Ghosh and Moon, (2010), use it to measure default risk. In addition to the firm level research, macroeconomic events have also been found to be related to bankruptcy risk. There has been substantial research on the macroeconomic impacts on bankruptcy risk. In early studies, Altman (1971), finds that economic decline, credit tightness, and decreased market performance are related to bankruptcy risk. More recently, Bhattacharjee, Higson, Holly and Kattuman, (2009) have combined both macroeconomic variables and firm specific financial variables to examine bankruptcies and acquisitions in UK and USA. Even though the model was introduced in the late 1960s, it is still being used in cutting edge financial research to proxy for financial distress and bankruptcy/default risk (Aslan & Kumar, 2012; Becker & Stromberg, 2012; Elliott *et al.*, 2010). These bankruptcy models typically use financial information that summarizes a firm's overall performance and financial condition. However, there is little study that uses differentiation and cost leadership strategy variables to examine the effect of performance or strategy on bankruptcy risk in Nepalese enterprises.

Cost leaders seek to achieve operational excellence in order to provide their products or services at the lowest cost (Porter 1980, 1996; Dess & Davis, 1984). To achieve this goal, cost leaders focus on cost control activities such as a short development cycle for new products, standardized product design, procurement of inexpensive labor, full

utilization of capacity resources, and tight budgetary control of overhead costs, R&D expenses, advertising, and sales expenses (Porter, 1980; White 1986; Zahra & Covin, 1993; Ward & Duray, 2000). In addition, the customers targeted by cost leaders are usually very sensitive to the sales price of the product/service, and they value non-price dimensions of a product or service much less than do customers of differentiators (Day, 1984; Hill, 1988; Murray, 1988). Consequently, it is crucial for a cost leader to maintain substantial operational scale and market share rather than to acquire specialized resources. Kama and Weiss (2013), while using a sample collected from the compustat database from 1979 to 2006, for a study into consistency across alternative strategy measures, find that differentiators on an average have a greater degree of cost stickiness than cost leaders. But in the context of Nepalese enterprises, there is still a gap in the study on cost behavior in different strategic position (cost leadership and differentiation strategy). Therefore, in Nepalese enterprises, how strategic positioning affects firms' cost behavior remains an unanswered question. This study, attempts to find the answer.

Regarding strategically determined, quality performance, Deming (1982), with his "quality improvement chain" concept, asserts that organizations can enhance their competitiveness by improving quality. Cost reduction through eliminating scrap and rework. The concept of quality costs developed by Crosby (1979), Juran and Gyrna (1993) provide explanations on the link between quality performance and cost reduction. The idea of quality cost suggests that any defective products (i.e. poor quality) will incur costs, commonly labeled as failure costs, which include the costs of rework and scrap. In the light of the link between quality performance and quality costs, firms need to make their efforts on controlling processes to minimize defects in their outputs, which reduce the failure costs. In turn, it is argued that such reduction will result in lower production costs and overall operation costs (Ardalan, Hammesfahr & pope, 1992; Millar, 1999). This is because the improvement of quality performance will impact not only on one particular functional area (i.e. production), but also on inter-functional areas within organizations (Mandal, 2000). Several empirical studies have exemplified the link between quality performance and cost reduction. For example, Maani, Putterill and Sluti, (1994) show that quality performance (in terms of scrap, rework, and customer complaints) not only has a favorable impact on the operational variables (i.e. production cost, on-time delivery, work in progress levels,

worker idle time, lead time, productivity), but also an apparent impact at the business performance level (i.e. return on sales, return on assets, sales volume, market share). The best performing firms are those that combine quality, dependability and flexibility as priority objectives and relegate cost reductions to secondary importance. Similarly, previous studies carried out in Australia also confirm that product quality was predicted by differentiation strategy but not cost leadership strategy (Prajogo, 2007). But the study of impact of generic strategies in quality performance has not yet been completed in Nepalese enterprises. However, this study is not limited to the quality of product of enterprises, but it has also been extended to the strategic determination of quality performance in the perspective of Nepalese enterprises.

Porter (1980), categorizes quality as a primary basis for differentiation strategy as firms adopting this strategy will uniquely position their products based on several attributes leading to a premium price. He specifically suggests that quality creates a differentiation point which separates, even insulates, a firm from competitive rivalry by creating customer loyalty as well as lowering price sensitivity. Addressing this issue can be done by comparing the relationships between strategy and quality in various industry or product sectors (Jabnoun, Khaliah & Yusuf, 2003; Sousa & Voss, 2001; Vokurka & Davis, 2004). The issue of maturity can also be applied at firm's level by examining the effect of the firm's age on its strategy and quality performance (Madu & Kuei, 1995, Sureshchandar, Rajendran & Anantharaman, 2003). Because the effect of differentiation is moderated by costleadership so, the higher the cost leadership, the stronger the effect (Prajogo, 2007). This study attempts to determine beneficial strategy out of cost leadership and differentiation in quality performance of Nepalese enterprises.

Regarding specific strategic practices, Hambrick (1983), investigate capital goods producers and industrial product manufacturers and find support for generic strategies. Ross (1995), supports two distinct focus strategies including low-cost and differentiation one aimed at distinct needs in terms of cost in a narrow target market and the other at distinct customization requirements in a narrow target market. Parker and Helms (1992) have found superior performance associated with mixed and reactive strategies as well as with single generic strategies; other researchers found combination strategies to be optimal and associated with superior performance (Buzzell & Gale,

1987; Buzzell & Wiersema, 1981; Hall, 1983; Hill, 1988; Murray, 1988; Phillips, Chang & Buzzell, 1983; White, 1986; Wright, 1987; Wright & Parsinia, 1991). Several studies have suggested that in high-performing businesses, low cost and differentiation strategy may be adopted simultaneously (Gupta, 1995; Slocum, McGill & Lei, 1994). In an attempt to detect the beneficial strategy in terms of quality performance, either low cost or differentiation strategies are mutually exclusive or they can be adopted simultaneously. Helms, Clay & Peter (1997), have found that business units which simultaneously compete on low cost and differentiation strategies (combination strategies) have higher returns on investment. However, since customers perceive the product or service as unique, they are loyal to the company and willing to pay the higher price for its products (Hlavacka, Ljuba, Viera & Robert, 2001; Venu, 2001). Implementation of low cost operation leads to worse financial performance (Cross, 1999). This study focuses on the perception of executives of selected enterprises about generic strategic practice and performance of Nepalese enterprises. This study deals with the following issues:

- Do differentiation and cost leadership strategies affect financial performance?
- Which generic strategic practice is positive to maintain sustainability of financial performance?
- How capital markets perceive and reward the strategies pursued by firms?
- What is the relationship between firm strategy and bankruptcy risk?
- Which (differentiation or cost leadership) strategy reduces bankruptcy risk?
- What is the association between firm's choice of strategic position and their cost behavior?
- Which (differentiation or cost leadership or both) strategy helps to predict quality performance?
- What is the impact of the combination of cost leadership and differentiation strategy on quality performance?
- How is the strategic management perceived by executives of Nepalese enterprises?

1.3 Objectives of the study

The major objective of this study is to analyze the impact of generic strategies (cost leadership and differentiation) on the performance of Nepalese enterprises. However, the specific objectives of the study are as follows:

- To analyze the relationship between strategic positioning of firm and the sustainability of financial performance.
- To examine the capital market perception of firm strategy.
- To determine the relationship between bankruptcy risk and firm strategy.
- To evaluate the relationship between strategic positioning and asymmetrical cost behavior.
- To examine the industrial impact of differentiation strategy and cost leadership strategy as well as their interactive effect on quality performance.
- To analyze the views of executives on the impact of strategic practices in Nepalese market.

1.4 Statement of hypothesis and development of theoretical framework

Advantages attained through differentiation are more likely to be sustainable because unique activities or products valued by customers cannot be easily imitated by competitors (Grant, 1991; Porter, 1985). A strategy of differentiation is usually developed around firm-specific and product-specific innovations and marketing effort that may not be easy to imitate quickly. The longer it takes for a competitor to respond to a particular comparative advantage, the greater opportunity there is for a firm to capitalize on the sustained advantages and to create new ones. Barney (2002), has described specific sources such as location, reputation and distribution channel that yield sustainable competitive advantage through product differentiation. On the basis of this literature, this study makes these hypotheses.

H1: Firms pursuing a differentiation strategy are more likely to sustain their financial performance over time than firms pursuing a cost-leadership strategy.

It is assumed that firms will follow a differentiation strategy to have more sustainable performance in the future. The investors will be likely to place a higher weight on the current earnings of such firms, which may lead to a higher price-earnings multiple for differentiation firms than cost leadership firms. The positive impact of a differentiation

strategy is likely to be reduced by the higher risk of future net cash flows and the risk refers to the systematic component of the cash flows' volatility (Kothari, 2001). Greater risk implies a higher discount rate, which reduces the present value of expected future earnings. Firms following a differentiation strategy may have more volatile earnings since the outcomes associated with innovative projects may be impacted more by the uncertainty associated with economic fluctuation. This implies higher risk for differentiation firms, which, in turn, may lead to lower price-earnings multiple. On the basis of this information this study makes the second hypothesis.

H2: Investors place a higher price-earnings multiple when valuing securities of a firm pursuing a differentiation strategy.

The literature has remained largely at the conceptual level in discussing the link between the generic strategies and business performance. Dess and Davis (1984) have been able to distinguish between the low cost and differentiation strategies and the activities associated with each strategy in their study of the paint industry and allied products.

In an efficient market, a firm's value is the present value of expected future net cash flows, discounted at the appropriate risk-adjusted rate of return. Various financial models translate expected future net cash flows in terms of expected future earnings where the expectation is based on a firm's current earnings (Kothari, 2001). If earnings are more persistent and current earnings are sustained into the future, then a higher weight is placed on current earnings in valuing a firm. This study assumes that a firm which advances further along either the differentiation or cost leadership dimensions produces better performance. Moreover, research shows that capital markets are capable of valuing intangibles such as R&D and advertising expenses (Chauvin & Hirschey, 1993; Asthana & Zhang, 2006), information technology expenses (Aboody & Lev, 1998), and even the regulatory environment (Henderson & Hughes, 2010). Therefore, it is presumed that capital markets will be cognizant of the value implications of firm strategy. Based on the presumption, it is posited that firms which are successful in pursuing either the cost leadership or the differentiation strategy will enjoy higher capital market valuations. Therefore, the following hypothesis is tested in this study.

H3. Capital markets will place a positive value on both the differentiation and the cost leadership strategy.

To enable long-term superior performance a firm has to maintain its unique position greater than its competitors. Most currently unique advantages of a firm can and will be copied and even improved upon by competitors over time. However, certain barriers will be higher than others and hence more difficult for rivals to overcome. Competitor and competitive information is generally available to all firms and new techniques diffuse rapidly (Barney, 1986). Therefore, a competitive advantage can be sustained only if it can survive attempts to replicate it by competitors (Ghemawat, 1995). Given the discussed ease with which sources of competitive advantage may be imitated, some firms have still been able to generate superior performance over sustained periods of time (Wiggins & Ruefli, 2002). Based on the above discussion, it is expected that the performance of a firm's pursuing differentiation will be more sustainable into the future. As a result, capital markets will place a higher value on firms pursuing a differentiation strategy compared to firms pursuing a cost leadership strategy. Therefore the further hypothesis is tested.

H4. Capital markets will place a higher value on firms pursuing a differentiation strategy than on firms pursuing a cost leadership strategy.

A cost leadership strategy is closely linked with productivity improvements, as productivity is the proficiency with which different inputs are combined to generate a specified output. According to Chang, Fernando and Tripathy (2012) firms following a cost leadership strategy have higher levels of productivity. Productivity is not essential for a differentiator; in fact, the process of implementing a differentiation strategy (such as product uniqueness, emphasis on quality, etc.) may actually be detrimental to a focus on productivity. Chang *et al.* (2012) formally demonstrate that firms that concentrate on differentiation do so at the expense of productivity. Porter shows that there are two generic strategies either of which, if successfully implemented, will enable firms to have competitive advantage over their competitors. Numerous studies have empirically confirmed this contention. The implementation of the two strategies will be different though: cost leadership will rely on productivity enhancements, while differentiation will seek innovation and brand loyalty. A successful implementation of either strategy will lead to better performance. Since better performance leads to a lower risk of bankruptcy, the following hypothesis is formulated for examining the generic strategies and risks.

H5. Firms pursuing higher degrees of differentiation reduce bankruptcy risk.

Chang *et al.* (2012) show the heterogeneous relationship between productivity and a firm's strategy through demonstration that cost leadership (differentiation) firms are associated with a higher (lower) level of productivity. Therefore, higher levels of either cost leadership or differentiation lead to a lower bankruptcy risk. Combining the different ideas, it is proposed that one of the mechanisms by which firm strategy impacts bankruptcy risk is through productivity. According to Chang *et al.* (2012), there exists a positive link between cost leadership and productivity. The implication is that as the level of cost leadership increases, the productivity also increases. It is expected that higher levels of productivity lead to a lower risk of bankruptcy. Hence, it is assumed that the impact of cost leadership on bankruptcy risk will be at least partially mediated through productivity. Therefore, this study formulates following hypothesis in order to clarify this relationship.

H6. Firms pursuing higher degrees of cost leadership reduce bankruptcy risk.

Cost leaders often have an organizational arrangement of low autonomy (with tight control) and frequent reporting (White, 1986). When sales fall, cost leaders reduce their unused capacity quickly in order to avoid loss. Relative to differentiators, cost leaders can more easily increase their resources to mirror sales increases as the acquired resources are not as unique or specialized as the differentiators. In summary, cost leaders have lower adjustment costs and maintain more flexible cost structures than differentiators. Overall, it is expected that facing sales decreases, differentiators will carry more unused capacity resources to save adjustment costs than cost leaders. Hence, the following hypothesis is tested.

H7: Cost stickiness of firms pursuing a differentiation strategy is higher than that of firms following a low cost strategy.

Quality bridges the two different perspectives of strategy into one dimension called the "value dimension". From a theoretical point of view, this argument allows the compatibility between cost leadership and differentiation strategy which have been extensively debated in strategic management literature (Hill, 1988). Specifically, Reed and Lemak and Montgomery (1996) show how quality simultaneously encompasses both differentiation and cost leadership strategy. The arguments is that by focusing on customer needs, quality is concerned with providing better products that satisfy customers' needs and this is associated with differentiation strategy. On the basis of the above information further hypothesis is tested.

H8: There is a positive relationship between differentiation strategy and quality performance.

If a product fulfills the customer's expectations, the customer will be pleased and will consider that the product is acceptable or of even high quality. On the contrary, if the expectations are not fulfilled, the customer will consider that the product is of low quality. This means that the quality of a product may be defined as "its ability to fulfill the customer's needs and expectations". At the same time, by focusing on internal processes, quality also leads organizations to reduce cost, as a result of the elimination of defects and waste. This makes it compatible with cost leadership strategy. The implication of this notion is that competing on quality will provide firms with double advantages by making possible both differentiated products and lower costs for customers (Gale & Klavans, 1985; Ho, Lau, Lee, & JP. 2005; Reitsperger, Daniel, Tallman & Chismar, 1993). On the basis of this information, further hypothesis is tested.

H9: There is a positive relationship between cost leadership strategy and quality performance.

Several scholars have suggested "unification" of differentiation and cost leadership brought by quality. Belohlav (1993), argues that attaining high quality performance allows the firms to pursue not only a differentiation strategy, but also a cost leadership strategy. Quality is considered as directly inverse to the cost. This seems to be compatible with a cost leadership strategy that seeks the lowest possible unit cost in production. Therefore, it is hypothesized that quality performance is predicted by differentiation strategy, cost leadership strategy and a combination of both the strategies. As such, the following hypothesis is tested.

H10: There is a positive interaction between cost leadership and differentiation strategy in predicting quality performance.

On the basis of above hypothesis, figure 1.1 schematic diagram of the theoretical framework has been developed.

FIGURE 1.1: THEORETICAL FRAMEWORK

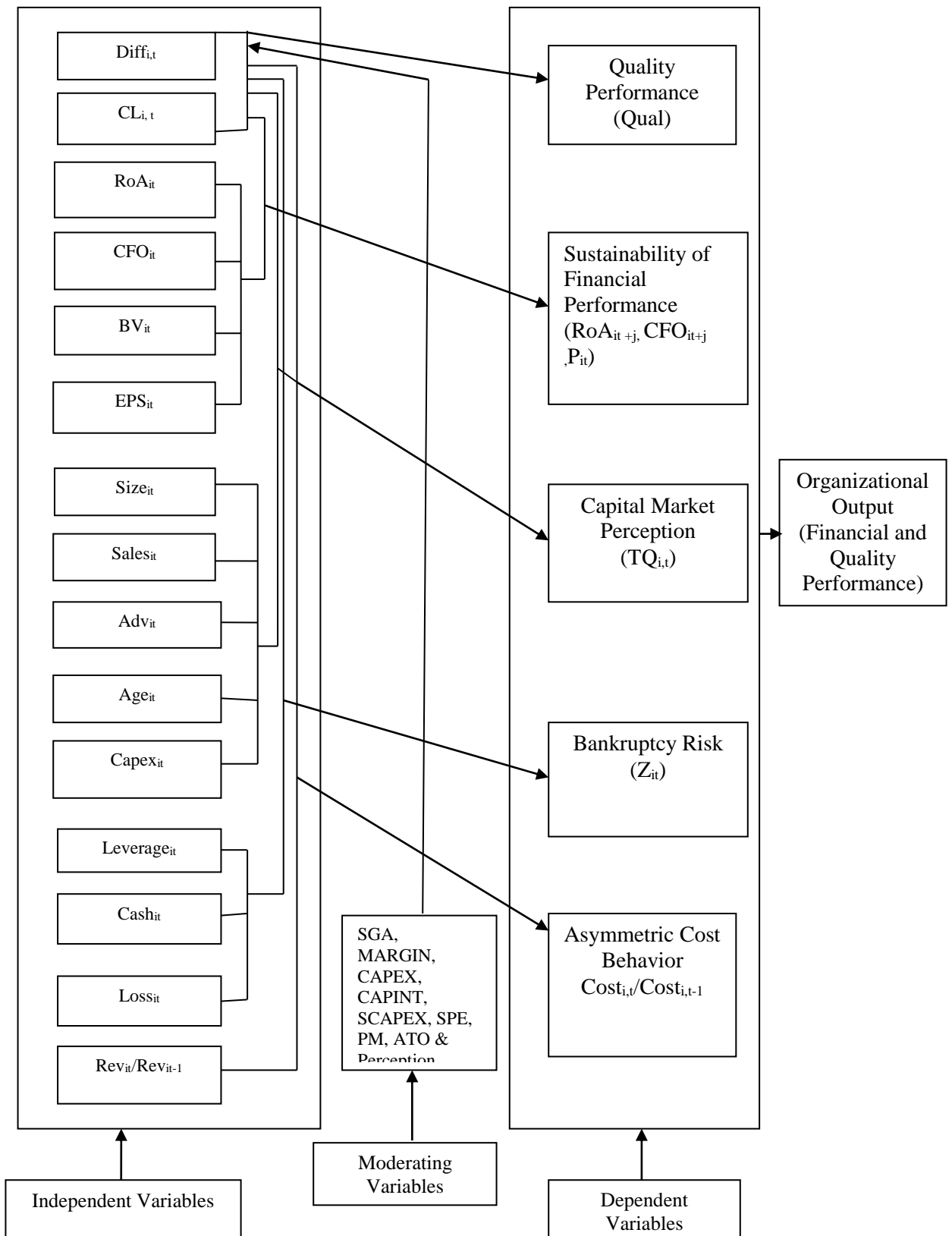


Figure 1.1 presents theoretical framework for this study. This study attempts to cover the impact of differentiation and cost leadership strategy in financial performance through return on assets, cash flow from operation to total assets, market value per share, perception on capital markets, bankruptcy risk and change on cost behavior. Similarly, it covers the impact of cost leadership and differentiation strategy on quality performance through personal opinions of senior executives of sampling enterprises. Cost leadership strategy and differentiation strategy are independent variables which are created through factor analysis from different moderating variables.

The above theoretical framework presents that the impact of cost leadership strategy and differentiation strategy is analyzed on sustainability of financial performance including impact of different controlled variables like return on assets, cash flow from operation to total assets, book value per share and earning per share. Similarly, the above figure explains that the role of differentiation and cost leadership strategies are measured through value of Tobin's Q including impact of size of enterprises on the basis of value of assets, sales of enterprises, ratio of advertisement expenses on sales, age of enterprises on the basis of establishment year of enterprises and ratio of capital expenditure on sales variables are used as a controlled variables.

Figure 1.1 shows that the benefit of cost leadership and differentiation strategies are measured on bankruptcy risk of overall sampling organizations which is measured through value of the Altman Z-score including controlled variables such as leverage, cash holdings to total assets and dummy variables loss. The impact of cost leadership and differentiation strategy are measured on behavior of cost including impact of change in sales and dummy variables Dec. Profit margin and assets turnover are treated as proxies of the strategic position (differentiation and cost leadership) of sampling enterprises.

1.5 Research methodology

The methodology used in this study comprises of research design, nature and sources of data, selection of enterprises and methods of analysis of the study.

I. Research design

The research design adopted in this study consists of descriptive and causal-comparative research designs to deal with the various issues raised in this study. The descriptive research has been adopted for fact-finding and searching for adequate information about different factors affecting financial performance, and this study also analyzes the structure and pattern of dependent or major independent variables i.e. cost leadership strategy and differentiation strategy or in controlled variables in regression analysis. Further, it also assesses the opinions of senior officer level employees of selected enterprises i.e. listed ten manufacturing and three hotels for analyzing impact of strategic position on quality performance. Causal-comparative research design has been followed to show the cause-effect relationship i.e. the impact of strategic position on financial performance due to creation of cost leadership and differentiation strategy through factor analysis from different variables for different objectives with including impact of different controlled and dummy variables.

II. Nature and sources of data

This study has used both primary and secondary data to assess generic strategies and performance of Nepalese listed enterprises. Secondary data have been used for the analysis of generic strategies and sustainability of financial performance, relationship between generic strategies with capital market perception, bankruptcy risk and asymmetric cost behavior of Nepalese listed enterprises. The annual reports bring out the official reports which contain the balance sheet, profit and loss account, statement of retained earnings, statement of cash flows etc. of listed enterprises of Nepal. The necessary data are sales revenue, cost of goods sold, net worth, return on assets, market price per share, book value per share, earning per share, dividend per share, selling, general and administrative expenses, gross margin, operating cost, capital expenditure on property plant and equipment, net profit after tax or net loss cash flow from operation, number of common share capital, long-term and short-term debt, market capitalization at the end of fiscal year, book value of plant and equipment, working capital, retained earnings, earning before interest and tax and value of total assets etc. are collected from annual reports from fiscal year 2000/01 to 2011/12.

The primary data required for this study have been collected through different structured questionnaire like yes/no question, five point scale and ranking etc. that have been administered to the individuals involved in operating and policy making level in selected enterprises for collecting the data. Primary data have been used for analyzing impact of cost leadership and differentiation strategy on quality performance, organizational performance on specific strategic practices, impact of change of external environment and organizational structure in between business-level strategy and organizational performance. This study examines the test for the applicability of Porter's generic strategies in explaining differences in the performance of Nepalese listed enterprises.

III. Selection of enterprises

The manufacturing and service sector are growing industries in Nepal. Therefore, competitiveness has become one of the essential requirements that can be obtained through the generic (cost leadership and differentiation) strategy. This study focuses on competitive advantage of generic strategies and financial performance of enterprise including impact of book value per share and earning per share on market price per share. However, this study takes into account a limited number of listed enterprises (financial institution or hotel or manufacturing and processing company).

This study focuses the spotlight on cost of goods/cost of service sold and sales revenue out of various elements to measure sustainability of financial performance. So, this study goes for a limited number of manufacturing and hotel enterprises. The population of this study is eighteen listed manufacturing and processing companies and four listed hotels. The entire list is as follows:

1. Bottlers Nepal Ltd.(Balaju)
2. Nepal Lube Oil Ltd.
3. Nepal Vanaspati Ghee Udhdyog Ltd.
4. Raghupati Jute Mills Ltd.
5. Butwal Spinning Mills Ltd.
6. Gorakhkali Rubber Udhdyog Ltd.
7. Jyoti Spinning Mills Ltd (ord.)
8. Arun Vanaspati Udhdyog Limited

9. Bottlers Nepal (Terai)Ltd.
10. Harisiddhi Brick and Tile Fac.Ltd.
11. Birat Shoe Ltd.(Ord.)
12. Uniliver Nepal Ltd.
13. Nepal Khadya Udhyog Ltd.
14. Shree Bhrikuti Pulp And Paper Ltd
15. Fluer Himalayan Limited
16. Shree Ram Sugar Mills Ltd
17. Nepal Bitumin and Barrel Udyog., and
18. Himalayan Distillery Ltd.
19. Soaltee Hotel Ltd.
20. Tara Gaun Regency Hotel Ltd.
21. Oriental Hotel Ltd.
22. Yak and Yeti Hotel Ltd.

Of these, only the annual audit report having 12 fiscal years have been chosen. With this company, Nepal Vanaspati Ghee Udhyog Ltd, Butwal Spinning Mills Ltd., Jyoti Spinning Mills Ltd., Arun Vanaspati Udhyog Limited., Harisiddhi Brick and Tile Factory Ltd., Birat Shoe Ltd., Nepal Khadya Udhyog Ltd., Shree Bhrikuti Pulp And Paper Ltd. and Yak and Yeti Hotel Ltd have been dropped.

IV. Method of analysis

The major purpose of data analysis in this study is directed towards analyzing the impact of generic strategies on financial and quality performance. The methods of data analysis include both primary and secondary data.

A. Secondary data analysis

The statistical tools such as factor analysis, descriptive statistics, correlation analysis, regression analysis were used to analyze the secondary data. It focuses on generic strategy and sustainability of financial performance, market performance in Nepalese capital market, bankruptcy risk, and cost behavior due to strategic position of Nepalese listed enterprises.

Factor analysis has been used to reduce attribute space from a larger number of variables to a smaller number of factors and variables are taken in factor analysis. These variables have been average of selling, general and administrative expenses divided by sales (SG&A), sales divided by cost of goods sold (MARGIN), capital expenditure on property plant and equipment divided by sales (CAPEX), and book value of plant and equipment divided by sales (CAPINT) (Banker, *et al.* 2006) to measure sustainability of financial performance as well as sales divided by capital expenditure on property plant and equipment (SCAPEX), book value of plant and equipment divided by sales (SPE), SG&A and MARGIN (Asdemir *et al.*, 2013) to measure capital market perception and bankruptcy risk of Nepalese listed enterprises. Descriptive statistics were also computed and analyzed for describing the various characteristics and dimensions of secondary data used in the study. The correlation analysis was performed for differentiation and cost leadership strategy by including different controlled variables. Regression results were also estimated to analyze generic strategies and performance.

B. Primary data analysis

The primary data analysis is based on questionnaire survey. The questionnaire contains questions relating to the impact of generic strategies on the quality of product, organization's financial and non-financial performance. A five-point Likert-scale has been used for the purpose. The statistical tools such as reliability analysis, descriptive statistics, correlation analysis, and regression analysis have been used to analyze the primary data. The analysis constitutes, in the main, the focus on generic strategy and opinion of senior executives of Nepalese listed organizations. The generic strategy measure comprises of selected items from the scale developed by (Prajogo, 2007). The scale includes both attitudinal and behavioral aspect of differentiation and cost leadership strategy including quality performance. Cronbach's α were also computed for reliability test, descriptive statistics were also computed and analyzed for describing the various characteristics and dimensions of primary data used in the study. The correlation analysis has been performed for differentiation strategy, cost leadership strategy, and interaction of cost leadership and differentiation strategy. Regression results have been also estimated to analyze generic strategy and quality performance.

1.6 Limitations of the study

Following are the major limitations of this study:

1. This study excludes financial, trading and service sectors in private and public. Further, the study is also limited to the study of only 13 sample enterprises out of 22 enterprises of manufacturing and hotel industry. Seven listed manufacturing enterprises are not in operation. Total sales revenue of Nepal Khadya Udyog Limited of fiscal year 2006/07 is nil. Out of four listed hotels, Yak and Yeti Hotel Ltd is not included in this study because it has not gone for selling equity share in capital market.
2. There is no separate record of research and development expenditure and number of employees in different fiscal years of different enterprises. Hence, four variables line average of SG&A, MARGIN, CAPEX and CAPINT have been taken as per Banker *et al.*, (2006) for factor analysis to reduce them to two variables i.e. cost leadership and differentiation strategy. Due to the lack of R&D (research and development expenditure divided by sales) and ASSETEMP (assets to employee ratio), the measurement of generic strategies and sustainability of financial performance of Nepalese enterprises have not been covered by this study.
3. Results of the impact of differentiation and cost leadership strategy are controversial, in so far as maintaining sustainability of financial performance in respect of cash from operations to total assets is concerned. Therefore, the result of this study cannot indicate whether differentiation strategy or cost leadership strategy is appropriate for sustaining the financial performance of selected enterprises or not.
4. This study has used the closing price of the share as representative price for the period. Though there are studies using different prices such as bid price, ask price, average of bid and ask price, transaction price and even high frequency prices (such as hourly prices), most of the studies use closing price as the representative price (Taylor, 2005). Moreover, in the context of Nepal, prices other than closing price are not available in a chronological order and not published for the use of general public.
5. Six variables SG&A/SALES, R&D/SALES, SALES/COGS, SALES/CAPEX, SALES/P&E and EMPL/ASSETS were used in factor analysis (Asdemir *et al.*

2013). Out of these, EMPL/ASSETS and R&D/SALES are excluded in factor analysis to reduce them to two variables i.e. cost leadership and differentiation strategy.

6. Impact of cost leadership and differentiation strategy on market perceptions is only limited to on value of Tobin's Q i.e. abnormal returns can use firm strategy in their portfolio selection.
7. Out of thirteen enterprises, only 5 have distributed cash dividend. These enterprises paid cash dividend for at least six and maximum of eleven fiscal years over 12 years of study period. Hence, cash dividend is not supported as a controlled variable in multiple regressions.
8. Research and development expenditure scaled by sales revenue controlled variable is not used to measure impact of cost leadership and differentiation strategy on capital market perception which is also partially influencing factor.
9. This study is limited to the study of the impact of cost leadership and differentiation strategy on bankruptcy risk i.e. it does not cover to analysis of relationship between productivity, firm strategy and bankruptcy risk. The study does not pretend to enlighten on the mediating effect of productivity in the relationship between strategy and bankruptcy risk.
10. Variables have been visible in descriptive statistics and correlation matrix but all are not included in regression analysis due to the lack of regression assumptions.
11. Single/Multiple regression equations for primary data analysis have been used to measure the impact of cost leadership, differentiation and interaction of cost leadership and differentiation strategy on quality performance. For this purpose, required variables have been computed on the basis of previous literatures (Prajogo, 2007).
12. The study covers only the period from 2000/01 to 2011/12.

1.7 Organization of the study

This study has been organized in seven chapters. Chapter one is an introductory part that describes background of the study, statement of the problem including research questions, objectives of the study, statement of hypothesis as well as theoretical framework, research methodology and limitation of the study. Chapter two deals with

generic strategies, strategic positioning of Nepalese listed enterprises and sustainability of financial performance. The linking of strategic practices and perception in capital markets to generic strategy of Nepalese listed enterprises is presented in Chapter three. Chapter four highlights bankruptcy risk and business strategy of Nepalese listed enterprises. Chapter five is related to association between firms' choice of strategic position, and their cost behavior of Nepalese enterprises. Chapter six enlightens on the relationship between individual impact of differentiation and cost-leadership strategy as well as their interaction effect on quality performance. It evaluates the views of senior executives in impact of generic strategies practices in Nepalese market in the perspective of quality performance. Finally, chapter seven makes final summations, conclusion, and recommendations.

CHAPTER II

Generic Strategies and sustainability of Financial Performance

2.1 Introduction

Strategy is a bet which is executed so as to achieve and maintain a high rate of return. Each of the generic strategies involves a fundamentally different route to competitive advantage. To achieve competitive advantage each type of generic strategy comes up with specific target. The cost leadership and differentiation strategy seek competitive advantage in a broad range of industry segments.

With cost leadership, the producer seeks to gain advantage over the whole market by economics of scale and competitive pricing alone. Porter's generic strategy of cost leadership focuses on gaining competitive advantage by having the lowest costs and cost structure in the industry. In order to achieve a low-cost advantage, an organization must have a low-cost leadership mindset, low-cost manufacturing with rapid distribution and replenishment, and a workforce committed to the low-cost strategy. The organization must be willing to discontinue any activity in which they do not have a cost advantage and may outsource activities to other organizations that have a cost advantage. There are many ways to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials. Cost leaders work to have the lowest product or service unit costs; and can survive competition with their lower cost structure. Cost leaders may take a number of cost saving actions, including building efficient scale facilities, tightly controlling overhead and production costs, and monitoring costs to build their relatively standardized products that offer features acceptable to many customers at the lowest competitive price.

If a firm can achieve and sustain overall cost leadership, it will be an above average performer in its industry, provided that it commands prices at or near the industry average. If there is an equivalent or lower prices than its rivals, a cost leader maintains the low cost, which will help bring higher returns. A cost leader, however, cannot ignore the bases of differentiation. If buyers do not perceive its product as comparable or acceptable, a cost leader will be forced to discount prices well below competitors to gain sales. A cost leader must achieve equivalence or closeness in the bases of differentiation relative to its competitors to be an above average performer, even

though it trusts cost leadership for its competitive advantage. Equivalence in the bases of differentiation allows a cost leader to translate its cost advantage directly into higher profits than competitors. Closeness in differentiation means that the price discounts is necessary to achieve an acceptable market share. The cost leadership brings the cost advantage and, hence, the cost leader earns above average returns. However, differentiation does not bring cost advantage.

The second generic strategy is differentiation and it was defined by Porter (1985), as the ability to provide unique and superior value to the buyer in terms of product quality, special features or after sales service. When using a differentiation strategy, a company focuses effort on providing a unique product or service, setting their offerings separately from competitors. Product differentiation fulfills a customer need and involves uniquely tailoring the product or service to the customer. This strategy allows organizations to charge a premium price to capture market share.

The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support and service. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived, based on fashion, brand name, or image. The differentiation strategy is applied to sophisticated or knowledgeable consumers who are interested in a unique quality product or service and willing to pay a higher price for these non-standardized products.

In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important and uniqueness with a premium price. A firm that can achieve and sustain differentiation will be an above average performer in its industry if its price premium exceeds the extra costs incurred in being unique. A differentiator, therefore, must always seek ways of differentiating that lead to a price premium greater than the cost of differentiation. A differentiator cannot ignore its cost position because its premium prices will be tempered by a markedly inferior cost position.

A differentiator thus aims at cost equality or nearness relative to its competitors by reducing cost in all areas that do not affect differentiation. The logic of the differentiation strategy requires that a firm chooses attributes in which to differentiate itself that are different from its rivals. A firm must truly be unique at something or be perceived as unique if it is to expect a premium price. In cost leadership, however, there can be more than one successful differentiation strategy in an industry if the numbers of attributes are widely valued by buyers.

Porter's generic strategy framework of differentiation and cost leadership strategy has been shown to be empirically stable with the Miles and Snow (1978) typology of strategy (Shortell & Zajac, 1990; Galbraith & Schendel, 1983; David, Hwang, Pei & Reneau, 2002) and is well accepted as internally consistent (Govindarajan, 1988; Miller, 1988). Both strategic frameworks have a single fundamental dimension: the willingness of businesses to alter their products and markets (Hambrick, 1983).

Prospectors aim to create uniqueness for their products and services and create a competitive advantage by being able to charge premium prices for the superiority of their products and services. Defenders, on the other hand, create a competitive advantage as they are able to price their products and services competitively by achieving lower costs. Thus the duality of the prospector/defender framework coincides with the differentiation/cost leadership framework.

Firms pursuing a differentiation strategy attempt to differentiate themselves from their rivals using a variety of sales, marketing and other related activities or product and technological innovations. Differentiation relates to the degree to which a product and its enhancements are perceived as unique. A firm adopting a differentiation strategy can command above-market prices which is possible by the customers' perception of the product being special in some way (Berman, Wicks, Kotha & Jones, 1999). Miller (1986) noted that there are at least two different types of differentiation strategies: those based on product innovation and those based on intensive marketing and image management. The key success factors which contribute to the profitability of a differentiator include creative flair, strong basic research and product engineering (Kotha & Vadlamani, 1995; Porter, 1980).

A firm can differentiate itself by offering high quality and innovative products with superior design or brand image. It can also apply the technology or customer service, a strategy typically implemented by making investments in costly activities such as extensive research, product design, and marketing. These expenditures, in turn, enable the firm to earn price premiums relative to its competitors. Hambrick (1983), has argued that the main dimension of the cost leadership strategy is efficiency, the degree to which inputs per unit of output are low.

Efficiency can be subdivided into two categories: (a) *cost efficiency* which measures the degree to which costs per unit of output are low, and (b) *asset parsimony* which measures the degree to which assets per unit of output are low. Together, cost efficiency and asset parsimony capture a firm's cost leadership orientation.

To the extent that firms following a cost leadership strategy succeed in arranging the minimum amount of operating costs and assets needed to achieve the desired sales, they would be able to improve their financial performance (Hambrick, 1983, Miller, 1987; Porter, 1980). Such firms pay great attention to asset use, employee productivity and discretionary overhead. Their customers buy their products primarily because they are priced below their competitors' equivalent products, an advantage achieved through minimizing costs and assets per unit of output (Hambrick, 1983).

This chapter aims at providing empirical evidence on the affect of cost leadership and differentiation strategy on sustainability of financial performance of Nepalese listed manufacturing enterprises. The rest of chapter is organized as follows. Section 2.2 outlines previous research in to generic strategies and organizational performance compared with different researches results and methodologies. Section 2.3 describes data testing methodologies. The results are presented in section 2.4. Section 2.5 provides a discussion of the overall the results.

2.2 Review of the relevant literature

This chapter provides review of empirical works associated with generic strategies, competitive advantages and sustainability of financial performance. A brief overview of the major past studies along with findings are broken down into various sub-periods and discussed in the following section:

- I. Review of major studies during 1980s
- II. Review of major studies during 1990s
- III. Review of major studies during 2000s
- IV. Review of major studies during 2010s
- V. Review of major studies in Nepalese context

I. Review of major studies during 1980s

There have been some researches done in these areas over a decade (1980-90). Table 2.1 presents the summary of review of the studies undertaken till 1990s. It includes the brief summary with their following findings.

Table 2.1

Major studies during 1980s

| Study | Major findings |
|--|--|
| White (1986) | Evidence linking the fit between generic business strategy, as defined by Porter, and the organizational context of multi-business companies with business unit performance. |
| Wright, Chan, Kinard and pringle, (1988) | District banks which are predisposed to competing with multiple strategies have performed well. |
| Douglas and Rhee (1989) | Similar dimensions underlying competitive strategy and similar generic types are found among businesses in the U.S. and in Europe. |

A study on generic business strategies in the perspective of organizational context and performance was conducted by White (1986). In this study, some of the common organizational requirements prescribed for generic business strategies of cost leadership and differentiation were examined in a study consisting of 69 businesses. The study results presented confirm some association among business unit strategy, organizational context and economic performance. Specifically, consistent with Porter's prescriptions, business units with pure low cost strategies experience higher return on investment when they have low autonomy. Likewise, the sales growth of pure differentiation strategies benefits from strong functional coordination with responsibility for key functions united under the business unit manager. Similarly, the return on investment of low cost strategies is, on average, higher when some functional responsibilities are

shared. The fit between strategy and the other aspects of organizational context studied seems to have little affect upon performance.

Strategies and district bank performance was examined by Wright, Chan, Kinard and Pringle, (1988) and this study focuses on relationship between different strategies i.e. cost leadership, differentiation and focus with profitability of district banks. The district banks in the sample have made up approximately 75 percent of the financial market in terms of their total revenues and 85 percent of the financial markets in terms of their total assets. Regression analysis has been used to determine whether dependent variables: profitability of the banks are significantly correlated with the independent variables: focus, differentiation, and low cost strategy orientations of the banks. Three strategic orientations (focus, differentiation, and low cost) determined by the questionnaire have been used as dummy variables which are correlated with return on assets (ROA). The use of dummy variables for correlating subjective variables with a dependent variable has been encouraged in the literature. Its findings reveal that all the dummy variables are correlated positively with ROA i.e. profitability of the banks significantly correlated with the independent variables.

A study on the examination of generic competitive strategy types in U.S. and European markets was based on industrial business drawn from the PIMS (profit impact of market strategy) data base. It was ongoing study of the performance strategy and competitive characteristics of individual product business, conducted by the Strategic planning Institute. The finding was provided a number of insights with regard to the nature of competitive strategy in markets outside the U.S. in the first place. The basic components of competitive strategy and the same generic competitive strategy types appear to occur among businesses in European as in the U.S. markets (Douglas & Rhee, 1989)

II. Review of major studies during 1990s

Similarly, the table 2.2 below presents the summary of the major findings from the empirical study carried out by the different scholars.

Table 2.2
Major studies during 1990s

| Study | Major findings |
|--|---|
| Jennings and Lumpkin (1992) | Organizations with a differentiation strategy tend to scan for opportunities and organizations with a cost leadership strategy tend to scan for threats. |
| Miller and Dess (1993) | When strategic advantage would be combined, combinations are not only possible, but also profitable. |
| Marlin Hoffman and Lamont, (1994) | For organization in dynamic environments, the degree of adherence to a differentiation strategy profile will have a positive effect on firm performance. |
| Median and Chin (1995) | Strategy most preferred by the majority (68 per cent) of all the building societies is the focus strategy |
| Helms, Dibrell and Wright, (1997) | Low cost strategy and differentiation strategy have return on investment than enterprises which complete with low cost only or differentiation only. |
| Berman Wicks and Kotha, (1999) | Cost efficiency variable is negative and strongly related to performance |
| Abhay, Charles, Ahmaf and Hailu (2000) | Companies from three German, Japan and U.S.A. countries were selling their products in the same market (US), they followed different generic and business level strategies in order to achieve competitive advantage. |
| Colin (2000) | Cost and differentiation do act as high-level discriminators competitive strategy designs. |
| Aulakh, Kotable and Teegen (2000) | Cost leadership based strategies enhance export performance in developed country markets and differentiation strategies enhance performance in other developing countries. |

A study on insights between environmental scanning activities and Porter's generic strategies has been examined by Jennings and Lumpkin (1992). The examination focuses on the relationships between the environmental scanning activities of chief executives from a single industry and their organizations' strategies. Using the 1983 total population of 270 Texas Savings and Loans (S&L), its expert panel identified 50 S&L as having differentiation strategy and 72 having a cost leadership strategy. The univariate analysis indicates a significant difference between all environmental scanning activities across the organizational types. Based on the main importance, those S&L with a differentiation strategy have been found to have placed more importance on the "evaluation of opportunities" and "evaluation of customers' attitudes". S&L with a cost leadership strategy places greater premium on "evaluation of threats from competitors and regulators" and "tracking policies and tactics of competitors". Thus, there appears to be a rather distinct difference in orientation with respect to environmental scanning based on generic strategy.

Similarly, a study on assessing Porter's (1980), model in terms of its generalizability accuracy and simplicity through an empirical analysis of PIMS (profit impact of marketing strategies) have been carried out by Miller and Dess (1993). The data for this

study have been taken from PIMS. This study has been a large, the then ongoing statistical analysis of strategic, environmental, and performance variables for more than 2000 business units, which represents about 200 corporations. ANOVA has been used to analyze the differences and similarities of the seven groups studied in terms of their environmental and performance gestalts. Based on the findings, Porter's guidelines suggest that firms generally do not attempt to combine forms of competitive advantage in an effort to create hybrid strategies.

Likewise, a scrutiny of Porter's study on generic strategies, dynamic environments, and performance in a profile deviation fit perspective has been made by Marlin and Marlin Hoffman and Lamont (1994). The scrutiny, which considers hospital business, it classifies each hospital's business strategy as one of four types: differentiated-cost leader, differentiation, cost leadership, and muddling. The differentiation and low cost measures have been used to identify each hospital's strategy. The findings reveal that the differentiation measures are all positively correlated and, to a lesser extent, negatively related to the low cost measures, suggesting a possible trade-off between the two bases for competitive advantages in many hospitals.

Median and Chin (1995), who have carried out a comparative investigation of national, regional and local building societies in the perspective of mortgage-pricing determinants, have utilized seven point Likert-scale questionnaires for collecting data with the objective of limiting the collection to the importance of the three main strategies pursued by their respective building societies in the mortgage market (focus, differentiation, or cost leadership). According to its findings, strategy most preferred by the majority (68 percent) of all the building societies is the focus strategy.

Helms, Dibrell and Wright (1997) have examined the competitive strategies and business performance in adhesives and sealants industry a scrutiny which utilizes relative market share and ROI (Return on investment) for measuring business performance. Cluster analysis, used for classifying selected sample firms, has classified three categories. Out of the three, the first cluster consists of 40 firms which primarily compete with the low cost strategy, the second cluster consists of 15 firms which compete both i.e. low cost and differentiation strategy and third cluster consists of 15 firms, which mainly compete with the differentiation strategy. Its findings suggest that, Low cost strategy and differentiation strategy have return on investment than enterprises which complete with low cost only or differentiation only.

Berman Wicks and Kotha (1999) have analyzed the relationship between stakeholder management models and firm financial performance. Samples are the top 100 firms on the 1996 Fortune 500 list. The study covers a broad range of industrial activity and

accounts for a significant portion of the U.S. economic output. The collected data, which cover the years 1991 through 1996 and which have been analyzed through the application of tools like descriptive statistics, correlation analysis, and regression analysis, lead to the discovery that cost efficiency variable is negative but strongly related to performance.

Examination of differences in Porter's generic and business level strategies of American, Japanese, and German companies operating in the United States has been conducted by Abhay, Charles, Ahmaf and Hailu (2000). It has been studied through mailed questionnaires to 860 chief executive officers of American, Japanese and German companies with operations in the US. The selection of companies for this study is random and the data analysis utilizes means, medians, analysis of variance (ANOVA), and Kruskal- Wallis test of significance. The study's findings reveal that Japanese firms are more aware of competitor's quality than their American and German counterparts. Japanese firms work more closely with their suppliers for improving quality, and for meeting corporate-customer needs.

A study titled "What we have learned about generic competitive strategy? A meta-analysis" has been carried out by Colin (2000). Meta-analysis has been used to describe a structured, quantified analysis of a body of empirical literature on a theorized relationship. It has been identified that 10 out of 17 studies investigate performance differences among 80 clusters. Measurement criteria have been used to analyze financial return and sales growth. Based on the finding, out of 80 clusters isolated in the empirical record, 65 include measure of financial performance, and 43 measure of growth performance. This study confirms that cost and differentiation do play a high-level role in discriminating between competitive strategy designs and recommends that the paradigm's descriptions of competitive strategy should be enhanced and that its theoretical proposition of designs must be supported.

The study on export strategies of firms from emerging economies and their performance in foreign market has been conducted by Aulakh, Kotable and Teegen (2000). Their collections of the data for the study are through questionnaire from firms in Brazil, Chile and Mexico from October 1996 to May 1997. The target sample in each country is a firm which has been a subsidiary unit of a multinational organization. Its finding discloses that a cost leadership strategy has a stronger effect on export performance in developed countries' markets than has in developing countries'. But post-hoc analyses do not provide additional insight into the relationship among export performance and use of a strategy integrating cost leadership and differentiation for firms from emerging economies.

III. Review of major studies during 2000s

There are several studies carried out during 2000s and the measure ones are provided in table 2.3.

Table 2.3
Major studies during 2000s.

| Study | Major findings |
|--|---|
| Christian and Joe (2001) | No relationship between the generic and Internet strategies of retail institutions in the financial services industry |
| Wai-Kwong,, Priem and Cycota (2001) | Use of differentiation strategy positive associated with future performance |
| Rui, Joao and Mahmoud, (2002) | Time based differentiation appears to be a valuable variation of the classical Porter's differentiation strategy. |
| Anthony, Felicity and John, (2003) | Consumer and service sectors were perceived to have the highest usage of the differentiation strategy when compare to the industrial sector. |
| Frambach, Prabhu and Verhallen (2003) | Greater emphasis on a focus strategy results in a decreased emphasis on customer orientation and that competitor orientation has a negative direct influence on new product activity and an indirect positive affect via customer orientation |
| Kim, Nam, and Stimpert, (2004) | Firm pursuing a hybrid cost leadership/differentiation strategy exhibited the highest performance. |
| Sharma (2004) | Increase in efforts for the development of new market segment/customers is found to be positively associated with the increase in sales growth in domestic and export markets. |
| Refael, Avishav, Shira, Yosea, Erez, YeheZkel and Yaron (2005) | Profit-oriented hospital used differentiation and low cost strategy equally but nonprofit hospital used low cost strategy comparing to differentiation strategy. |
| Banker, <i>et al.</i> (2006) | Differentiation strategy is better than cost leadership to sustain financial performance. |
| Jeff, Willem, Chee-Chuong and Baofeng (2006) | A company that possesses both cost leadership and differentiation advantages, and is able to compete effectively on both strategic dimensions. |
| Jae, David and youngjun, (2006) | Five, three and six principles are useful for implementing cost leadership, differentiation and both strategy respectively. |
| Nicholas and Abby (2006) | prospectors tend to perceive their environment as dynamic whereas defenders perceive their environment as stable |
| Michael, David and Bill (2007) | No difference in customer relationship management usages among the strategy types. |
| Mikael, Thomas and Olli-Pekka (2007) | The "route" to profitability significantly different between the clusters. |
| Carl and Francois (2008) | Combined impact of different classes of strategy (generic and international) on performance is appropriate in international market. |
| Baack and Boggs (2008) | Implementation of a cost leadership strategy by developed country multinational companies (MNCs) is rarely effecting in emerging market that MNCs may benefit from using different strategies in different markets. |
| Jonsson and Devonish (2009) | Hotels in the five star and higher category placed more strategic emphasis on defining service standards and performance as compared with those in the one-star category. |
| Salvou and Halikias (2009) | Export profitability is dependent on three strategy types i.e. the non-strategists, the marketing-based strategists and the hybridists |
| Gonzalez – Benito (2010) | The best performing firms are those that combine quality, dependability and flexibility as priority objectives and relegate cost reductions to secondary importance. |

A study on planning for electronic commerce strategy has been carried out by Christian and Joe (2001). The study is based on 307 financial institutions of the USA, with at least two from each state through a method of random selection, presents a validating relationship between corporate strategy and commerce strategy. Its conclusion shows that there is no relationship between the overall generic strategy of retail banks and their specific strategy of online banking transactions.

Wai-Kwong, Priem and Cycota (2001) have studied on the performance effects of human resource managers' and other middle managers' involvement in strategy making under different business-level strategies in Hong Kong. The study, which uses survey packets for data collection and which receives an overall response rate of 25.4%, analysis the data through the application of statistical tools like factor analysis, descriptive statistics, and regression analysis. According to its findings, the involvement of human resource managers during strategy making is positively related to perceptions of future business performance. The use of a differentiation strategy is also positively associated with future performance.

Rui, Joao and Mahmoud (2002) have examined the utility of classical porter's generic strategies in comparison to time-based differentiation strategy. A descriptive statistics, one way ANOVA, factor analysis statistical tools have been used in this study, using a scale ranging from 1 (not important) to 5 (very important) through questionnaire distributed to senior executives who have to rate the relative importance of several competitive methods to the strategic operation of their firms. Responses have been analyzed using factor and cluster analysis to establish patterns of relative importance. The measurements used in the performance analysis have been the return on sales and the return on equity. The significance of the results has been verified using one-way ANOVA: the Newman-Keuls test. Its findings suggest that different variations of the classical differentiation strategy, which includes time-based differentiation, appear to be more effective than cost leadership or mixed generic strategy.

Anthony, Felicity and John (2003) have focused on the evaluation of executive perceptions of strategic typologies and the comparison among four formulations of strategic typologies. The study, which collects data through mail survey from senior Australian executives involved in top-level strategic decision making at a response rate of 36.43%, analysis them by means of test of hypothesis, multivariate analysis of

variance, and univariate ANOVA in order to clarify the nature of relationships. Its findings reveal that the consumer and service sectors have been perceived to have the highest usage of the differentiation strategy when compared to the industrial sector. Australian executive perceptions of generic strategies look organized and appear to correspond to Porter's original framework.

Frambach, Prabhu and Verhallen (2003) examine the influence of business strategy on new product activity: the role of market orientation. The examination, which collects survey data from 175 Dutch firms and which banks upon not only a five-point Likert-scale but also tools like factor and regression analysis, comes to the conclusion that greater emphasis on a focus strategy results in a decreased emphasis on customer orientation and that competitor orientation has a negative direct influence on new product activity and an indirect positive affect via customer orientation.

A study on the applicability of Porter's generic strategies in the digital age of Korean cyber mill has been carried out by Kim, Nam and Stimpert (2004). Data have been collected through questionnaire and the questionnaire include questions about strategy and respondents' their subjective evaluation of performance. This study suggests that Porter's generic strategies are applicable to e-business and they indeed explain performances' difference across firms. Contrary to conventional wisdom, but consistent with the logic of business in the digital realm, the cost leadership strategy exhibits the lower performance. Firms pursuing a hybrid cost leadership/differentiation strategy display the highest performance. The findings also suggest that cost leadership and differentiation can be combined at the same time, and must be combined to be successful in e-business.

Sharma (2004) has examined the degree of emphasis placed by the Australian manufacturing industry on marketing strategy, along with other organizational strategies such as research and development (R&D), human resources, technology, operations at the functional level. For testing the instruments' reliability, a reliability index has been used. Statistical techniques such as factor analysis, descriptive analysis, correlation analysis, linear regression and analysis of variance (ANOVA) have been used for analyzing the data. The findings reveal that relatively higher emphasis has been placed on the marketing strategy by firms which are large, are involved in

consumer goods industry, are involved in exports, have high domestic sales growth, and have adopted a differentiation strategy combined with a cost leadership strategy.

A study on competitive strategies in the Israeli ambulatory health care system, by comparing managerial perceptions of present and ideal business strategies in two Israeli sick funds has been conducted by Refael, Avishav, Shira, Yosea, Erez, Yehezkel, and Yaron (2005). The sample for the study consists of 145 managers, with the sample manager being heterogenic a medley of junior managers (dental office managers, general clinic managers) and senior managers (district managers, department and wing managers in the sick fund's central office). The findings disclose that while 25 percent non-profit hospitals are stuck in the middle, 75 percent of them pursue some of form low cost strategy.

Generic strategies and sustainability of financial performance have been carried out by Banker, *et al.* (2006). The finding reveals that pursuing both efficiency and differentiation strategies have a positive impact on contemporaneous performance. The differentiation strategy allows a firm to sustain its current performance in future to a greater extent than an efficiency strategy. Greater ability to sustain earnings in the future may lead to higher price-earnings ratio. Capital market participants recognize that firms adopting a differentiation strategy are able to sustain financial performance and accordingly give a higher price-earnings multiple to such firm.

A study on the link of financial performance to strategic orientation and operational priorities has been conducted by Jeff, Willem, Chee-Chuong and Baofeng (2006). The study, which mobilizes cluster analysis and ANOVA analysis, attires at the conclusion that logistics service providers classified to follow different strategies report different financial performance, with companies adhering to the combined strategy of low cost and differentiation performing best, followed by pure differentiation companies, which in turn, outperform pure cost commodity driven companies.

Similarly, a study on the principles of management and competitive strategies in the perspective of using Fayol to implement Porter has been conducted by Jae, David and Vounjun (2006). The findings reveal that the principles of division of work, authority and responsibility, unity of command, unity of direction and scalar chain are useful in the implementation of a cost leadership strategy but other, more modern alternative

principles, apply for differentiation strategy. Likewise, the three principles of stability of tenure of personnel, initiative and *esprit de corps* apply to the implementation of differentiation strategy, but not to cost leadership, where, again, alternative principles apply. The remaining six principles of discipline, subordination of individual interests to the general interest, remuneration, centralization order and equity are applicable to implementation of both.

Likewise, a study on the perceptions of generic strategies of small and medium-sized engineering and electronics manufactures in the UK has been carried out by Nicholas and Abby (2006). The sample consists of 1,000 small and medium-sized UK electronics and engineering firms. Main strategic orientation types present in this study are associated with different environment i.e. dynamic and stable. The findings reveal that prospectors tend to perceive their environment as dynamic whereas defenders perceive their environment as stable. Here, prospectors perform better than defenders.

The impact of Porter's strategy types on the role of market research and customer relationship management has been studied by Michael, David and Bill (2007). Different statistical tools are used for this study such as Likert scale, ANOVA etc. Their findings disclose that no significant differences are available among marketing differentiators, product differentiators and cost leaders in the usage of customer relationship management (CRM) system to support decision making.

Managing retail chain profitability based on local competitive conditions has been studied by Mikael and Mikael, Thomas and Olli-Pekka. (2007). One way ANOVA and cluster analysis statistical tools have been used in this study. Return on Assets (ROA) has been used to measure profitability of business organization. The findings show that in monopoly market, the route to high profitability goes through high gross-margin, while in fleet market, the key figures are low cost, large number of shoppers per week, and high productivity.

Strategy development in international markets has been assessed by Carl and Francois (2008). Factor analysis has been used for defining different business strategies, which are differentiation, cost leadership and focus. The findings suggest that Porter's generic strategies have both a direct and an indirect impact through international marketing

strategies on firm performance, and that the combined impact of the two levels yields better returns than either of them individually.

A study on difficulties in using a cost leadership strategy in emerging markets has been conducted by Baack and Boggs (2008). It does not use empirical data or statistical analysis to support its claims. The arrangements made are supported through theoretical discussion and non-systematic observations of MNCs (multinational companies) actions and consequent outcomes. The findings demonstrate that implementation of a cost-leadership strategy by developing country MNCs is rarely effective in emerging markets, and that MNCs may benefit from using different strategies in different markets.

Similarly, a study on competitive strategies among hotels in a small developing Caribbean state has been conducted by Jonsson and Devonish (2009). The study, which collects data from human resources managers, general managers or managing directors at hotels in Barbados through self-administered questionnaires, arrive at the conclusion that hoteliers are focused on a combination of different strategies advanced by Vandermerwe, *et al.* as a means of securing a competitive advantage. The study, recommends that changes in strategy should be accompanied by training employees as the service and the quality of hotels change. As their customers' demands change, and as the competition changes, the competitive strategies of hotels will change.

Likewise, a study on types of exporting firms featuring strategy orientations and profitability of differential emphasis has been carried out by Salvou and Halikias (2009). Data of 82 exporting firms established in Greece have been analyzed with the help of factor analysis, cluster analysis and cross-tabulation. The findings reveal that export profitability is dependent upon three strategy types (i.e. the non-strategists, the marketing-based strategists and the hybridists) reflecting either no-strategy or combined alternative choices. Despite the dominance of the hybridists emphasising on both low cost and differentiation focus strategy dimensions, this study asserts that the hybrid form is not the most profitable basis of competitive advantage.

Additionally, a study on the effect of purchasing and supply strategies on business performance has been conducted by Gonzalez-Benito (2010). The study, which analyses data collected through questionnaire by purchase managers 180 Spanish

industrial firms, demonstrate that assigning greater relative importance to flexibility and lesser relative importance to cost reduction in terms of stock levels and purchasing prices (considered together as logistics efficiency) leads to improved commercial and financial performance. It, thus, asserts that the greatest contribution of the purchasing function to business performance occurs with a differentiation strategy. When the purchasing function uses a cost strategy and emphasizes cost-related objectives, it does not seem to generate competitive advantages that boost overall performance.

IV. Review of major studies during 2010s

There have been some researches done in generic strategies during 2010s. Table 2.4 presents the summary of review of the studies undertaken till 2010s. It includes the brief summary with their following findings.

Table 2.4
Major studies during 2010s

| Study | Major findings |
|--|--|
| Acquaah, Amoako-Gyampah, and Jayaram (2011) | Pursuit of the business strategies of cost leadership and differentiation create competitive advantage for family businesses |
| Atkin, Gilinsky, Sandra, and Newton (2012) | Those respondents with a clear business case for EMS exhibited significant differences in cost leadership and differentiation advantages over those without a clear business case for EMS. |
| Qin, Adler, and Cai, (2012) | Several common competitive strategies practiced by the top three domestic Chinese lodging companies in the economy segment. |
| Miles, Miles, and Cannon (2012) | firm competitive strategy has an impact on the strength of the relationship between customer satisfaction and service scape characteristics |
| Teeratansirikool, Siengthai, Badir, and Charoenngam (2013) | A differentiation strategy has a significant direct relationship with firm performance while cost leadership does not directly affect firm performance |

Acquaah, Amoako-Gyampah and Jayaram (2011) have studied resilience in family and nonfamily firms: an examination of the relationships between manufacturing strategy, competitive strategy and firm performance. The study analyzes the relationship between manufacturing strategy, competitive strategy and the relationship between manufacturing strategy and performance for family and nonfamily firms in the developing economy of Ghana. The sample consists of 250 manufacturing and service organizations in Ghana, particularly, the operations, human resources and marketing

managers. The data analysis, following the measurement of the questionnaires through seven-point Likert-scale ranging from 1 (no emphasis) to 7 (extreme emphasis), reveals that delivery strategy is associated with the competitive strategy of cost leadership for family firms while flexibility is associated with cost leadership for non-family firms. Flexibility is related to the competitive strategy of differentiation for family firms but not for non-family firms.

The study on “Environmental strategy: does it lead to competitive advantage in the US wine industry?”, conducted by Atkin, Gilinsky, Sandra and Newton (2012), focuses on investigation and comparison on the perceptions of competitive advantage (cost leadership, differentiation, and performance) of those wineries which have implemented a clear business case for an environmental management system (EMS) and those which have not. Benefits and challenges of sustainability practices have been also addressed. The analysis of the data, collected through self-report web-based survey, discloses that those with a clear an environmental management system (EMS) derive greater benefit on key cost leadership advantage indicators. Wineries with a clear business case for EMS demonstrate perceptions of greater differentiation advantages over those who do not have a clear business case for EMS: specifically those with a clear EMS feel that they have gained an enhanced ability to enter new markets to a much greater extent than those without a clear EMS.

A study on successful growth strategies of three Chinese domestic hotel companies has been highlighted by Qin, Adler and Cai, (2012). This study focuses on top three companies: hotel inn, jinjiang inn and motel chain. Primary as well as secondary data have been used for this study. Primary data have been collected through interview with the management team (chief executive officers, directors, general managers) and direct observation. Secondary data have been collected through industry reports and industry news, financial reports, academic publications and archival data from china hotel association and china tourist hotel association. The findings show that there are several common competitive strategies being practiced by the three companies. They are innovative positioning, keeping costs low, expanding quickly, continuously innovating, highlight on quality and consistency and extensive training, plus some other indigenous operation practices.

The study on linking service scope to customer satisfaction: exploring the role of competitive strategy has been conducted by Miles, Miles, and Cannon (2012) explores the relationship between firm service characteristics and customer satisfaction as moderated by firm competitive strategy. The empirical data for this study have been obtained from 1,287 customers of ten service organizations representing three industry segments. Multiple regression analysis has been utilized to test three hypotheses that propose firm competitive strategy moderates the strength of the relationship between service characteristics and customer satisfaction. According to its findings, it is suggested that while the service scope variables have a positive influence in general on customer satisfaction, this influence is stronger in each case for firms pursuing a differentiation strategy than for firms pursuing a cost leadership strategy. These results are in line with the logic of the hypotheses that the relationship between service scope and customer satisfaction will be stronger for differentiators than for cost leaders.

Teeratansirikool, Siengthai, Badir, and Charoenngam (2013) have studied competitive strategies and firm performance: the mediating role of performance measurement. The study, which has been conducted on 561 Thai listed companies in both manufacturing and service sectors, utilizes a cross-sectional questionnaire survey and statistical software SPSS version 11.5 apart from usual analytical tools like factor analysis, correlation, regression, and path analysis concludes that all competitive strategies positively and significantly enhance firm performance through performance measurement. Specifically, firms' differentiation strategy not only has a direct and significant impact on firm performance but also it has indirect and significant impact on firm performance through financial measures. Cost leadership strategy that firms pursue, does not directly affect firm performance. However, it does so indirectly and significantly through financial performance measures.

V. Review of major studies in Nepalese context

There are some studies undertaken in the Nepalese context. The major studies undertaken in the Nepalese context with their major findings of empirical studies are provided in the table 2.5.

Table 2.5
Major studies in Nepalese context

| Study | Major findings |
|------------------|--|
| Parajuli (2006) | Nepalese five star hotels are moderately practicing low price and product differentiation strategy in the view of respondents. |
| Thapa (2008) | Cost leadership and differentiation strategy have positive as well as significant impacts on overall performance of the banks whereas focus strategy has no significant relationship with performance. |
| Kashpal (2009) | Bank of Kathmandu and Siddhartha Bank Limited are following low cost strategy but Himalayan Bank Ltd. and Laxmi Bank are following differentiation strategy. |
| Bhattarai (2010) | Cost leadership strategy is better than differentiation strategy but differentiation strategy cannot be avoided in commercial banks of Nepal. |
| Maharjan (2011) | Impact of cost leadership, differentiation and focus strategies on profitability is mixed, meaning that there are positive and negative coefficients. |

A study on competitive strategy and strategic management accounting in Nepalese five star hotels, the competitive strategy and strategic management accounting framework has strong relationship with operational contingent factors in Nepalese five star hotels. The quality service factor of five star hotels has been rated highly important to maintain the competitiveness of hotel services (Parajuli, 2006).

Similarly, a study on generic strategy and performance benchmarking of the commercial banks of Nepal has been conducted by Thapa (2008). The study shows that cost leadership and differentiation strategy have significant impact on performance. It recognizes the achievement of competitive performance of the banks but asserts that focus strategy may not lead to superior performance in the context of Nepalese commercial banks. Banks with better performance have been adopting combination of the strategies (both cost leadership and differentiation) with priority. Hence, multiple strategies are more fruitful than that of adopting single strategy.

Likewise, a study on competitive business level strategies in Nepalese joint venture banks and private domestic banks show that the joint venture banks have been associated with low cost strategy as per the theory. But it has focused more on differentiation strategies in the Nepalese banking industries. It finds that the private domestic banks do not have stronger differentiation strategy than that of joint venture banks. The profitability strategy of joint venture banks is also stronger than that of private domestic banks. Hence, the joint venture banks also have better competitive

position than that of private domestic banks. Joint venture banks tend to have focused on all three strategies i.e. low cost, differentiation and profitability strategies in comparison to private domestic banks (Kasphal, 2009).

The study on generic strategies and sustainability of financial performance of commercial banks in Nepal has been conducted by Bhattarai (2010). It concludes that efficiency strategy is better than differentiation for increasing sales growth, Return on assets stability and market price per share. But according to opinion of senior officer employee of commercial banks, differentiation strategy is better than efficiency for increasing market share. Hence, efficiency is better than differentiation strategy but differentiation strategy cannot be avoided.

A study on competitive generic strategies in profitability of insurance industry in Nepal has been conducted by Maharjan (2011). Its findings suggest that cost leadership of Life Insurance Company is positively significant with profitability i.e. return on equity. This study also shows that the affect of differentiation strategy on profitability of the surveyed insurance company is negatively significant. Insurance industry has not been completely following competitive generic strategies.

To sum up, the review of the above literature reveals that if a firm adopts a cost leadership strategy, it achieves competitive advantages based on operational efficiency, and that its superior performance is likely to dissipate over time since such an advantage may be easily imitable. On the other hand, firms that adopt differentiation strategies may attain advantages that endure, and hence the performance of such firms is likely to be sustained over time. There is no sufficient study on the impact of generic strategies in sustainability of financial performance of Nepalese enterprises either from government or private sector. No study is available about role of differentiation and cost leadership strategy on market price per share, return on assets, return on assets stability, and sales growth. Similarly, no study has been done yet about the impact of book value per share and earning per share on market price per share due to strategic positioning as well as sustainability of cash flow due to the impact of cost leadership and differentiation strategy.

2.3 Research methodology

I. Nature and sources of data

To measure generic strategies and sustainability of financial performance of Nepalese listed enterprises, secondary data have been used. These data have been collected from Security Board of Nepal, Nepal Stock Exchange and concerned companies i.e. sampling organizations which have been mentioned in Chapter One. The data collected from fiscal year 2000/01 to 2011/12 and all the collected data have been converted into five-year moving average.

II. Method of analysis

The following procedures and statistical tools have been used for analyzing the data.

A. Strategy measures

To measure strategic positioning of organizations, the following six variables have been typically used to operationalize different strategies:

i) Selling intensity (SG&A)

It has been calculated as the total sales, general and administrative expenditure divided by net sales (Banker, *et al.*, 2006). It reflects a firm's resource allocation for sales and marketing efforts. Firms pursuing a differentiation strategy invest in a variety of advertising, marketing and related activities in order to differentiate themselves from competitors. A higher allocation of resources to SG&A indicates an effort to build and strengthen the firm's brand and product image. Higher SG&A thus indicates a greater likelihood that the firm is pursuing a differentiation strategy (David, *et al.*, 2002; Berman *et al.*, 1999; Miller and Dess, 1993; Thomas and Litschert, 1991; Hambrick, MacMillan, & Day, 1982).

ii) Research and development intensity (R&D)

It is measured as the total research and development expenditure divided by net sales (Banker, *et al.*, 2006). A key success factor for a differentiator is the ability to offer high quality and innovative products and services. It is, therefore, likely that such firms spend more on research and product design. Higher R&D expenditure is likely to

indicate that a firm pursuing a differentiation strategy (Hambrick, 1983; David, *et al.*, 2002; Ittner, Larcker & Rajan, 1997; Prescott, 1986; Thomas, *et al.*, 1991).

iii) Gross margin (MARGIN)

It is measured as the net sales divided by cost of goods sold (Banker, *et al.*, 2006). A firm pursuing a differentiation strategy is likely to create a unique perception of its products and services superior to its competitors, enabling it to command above-market prices, and greater profitability (Kotha & Nair 1995; Nair & Filer, 2003). Other researchers have used the margin variable to measure cost efficiency (e.g., Hambrick, 1983; Berman *et al.*, 1999).

iv) Capital expenditure (CAPEX)

It is measured as the capital expenditure on property, plant and equipment divided by net sales (Banker, *et al.*, 2006). It indicates the lack of asset parsimony (Hambrick, 1983; Kotha and Nair, 1995; David *et al.*, 2002).

v) Capital intensity (CAPINT)

It is asserted as net book value of plant and equipment divided by net sales (Banker, *et al.*, 2006). It indicates the lack of asset parsimony of the business (Hambrick, 1983; Kotha & Nair, 1995).

vi) Assets-to-employee ratio (ASSETEMP)

It is measured as the total number of employees divided by total assets (Banker, *et al.*, 2006). This ratio measures the efficiency of utilization of the firm's resources by its employees (Hambrick, 1983; Kotha & Nair, 1995).

Six variables which are described above have been used to measure the two generic strategies of organizations. For this purpose, the mean of the previous five-year data for each variable are employed to compute the long term orientation of organizations. Furthermore, to capture the common patterns among the six variables, factor analysis is analyzed to reduce above six variables. The results of the factor analysis were implemented to measure co-efficient of regression equation (Banker, *et al.*, 2006).

B. Factor analysis

Factor analysis is a statistical technique for reducing the dimensionality of a problem by summarizing a set of variables as a smaller set of inherent, latent common factors. In factor analysis, each of the variables is made up of a linear combination of common factors and a specific component unique to the variable. Factor analysis has been used to uncover the latent structure (dimensions) of a set of variables (Banker, *et al.*, 2006). It reduced attribute space from a larger number of variables to a smaller number of factors and as such is a "non-dependent" procedure (that is, it does not assume a dependent variable is specified). Initial four variables were taken in factor analysis average of SG&A, MARGIN, CAPEX and CAPINT only out of six variables.

C. Descriptive statistics

For describing the various characteristics and dimensions of quantitative data, different tools of descriptive statistics are used. Mean, median, minimum value, maximum value and standard deviation were used for analysis of secondary data for this study.

D. Correlation analysis

In correlation analysis, the strength of linear relationship among the different variables is measured. Measurement of the strength of relationship between the two quantitative variables, X and Y is usually carried out by simple correlation coefficient, denoted by 'r'. Correlation analysis is useful in exploratory data analysis. It provides some guidelines for selecting independent variables in multiple regression analysis. In correlation analysis in this study, different variables such as differentiation strategy, cost leadership strategy, market price per share, book value per share, earning per share, return on assets, future return on assets on the basis of previous different period, cash flow from operation to total assets and future cash flow from operation to total assets on the basis of previous different periods were analyzed.

E. Regression analysis

To evaluate the first research hypothesis on the sustainability of financial performance based on the generic strategies followed by organizations, different regression models have been used. Return on assets (ROA) is the measure of a firm financial performance. Achieving a high ROA is an objective of most enterprises. Various studies in the

strategic management literature have used ROA as a measure of financial performance of a firm (Bae & Gargiulo, 2004; Bettis, 1981; Hitt, Hoskisson & Kim, 1997; Venkataraman & Ramanujam, 1986; Waddock & Graves, 1997). Hence, this study has used the following regression equations.

$$ROA_{i,t} = \alpha_0 + \alpha_1 Diff_{i,t} + \alpha_2 CL_{i,t} + \varepsilon_{i,t} \dots (i) \text{ (Banker } et al, 2006).$$

Where, $ROA_{i,t}$ is dependent variable. $Diff_{i,t}$ and the $CL_{i,t}$ are independent variables.

$$ROA = NPAT/TA.$$

$ROA_{i,t}$ = Return on assets of a firm i in a period t

$Diff_{i,t}$ = Differentiation strategy of a firm i in a period t

$CL_{i,t}$ = Cost leadership strategy of a firm i in a period t

Strategies are measured by of thirteen firms (ten manufacturing firms and three hotels) of sample Nepalese listed enterprises of five-year moving average from 2000/01 to 2011/12 which are constructed by individual factors scores of CAPEX, SG&A, CAPINT and MARGIN through factor analysis.

To evaluate hypothesis one, this study has examined whether the extent to which current performance persists into the future depends on the two strategies. Therefore, it estimates the following set of equations which include future ROA, the dependent variable, for each of the five subsequent years as a function of its current performance (Banker *et al*, 2006).

$$ROA_{i,t+j} = Y_{0j} + Y_{1j} ROA_{i,t} + Y_{2j} ROA_{i,t} Diff_{i,t} + Y_{3j} ROA_{i,t} CL_{i,t} + \varepsilon_{i,t} \dots (ii) \text{ (Banker et al, 2006).$$

$$ROA_{i,t+j} = Y_{0j} + Y_{1j} ROA_{i,t} + Y_{2j} Diff_{i,t} + Y_{3j} CL_{i,t} + Y_{4j} ROA_{i,t} Diff_{i,t} + Y_{5j} ROA_{i,t} CL_{i,t} + \varepsilon_{i,t} \dots (iii) \text{ (Banker et al, 2006).$$

Where, $ROA_{i,t+j}$ for $j = 1, 2, 3, 4, 5$ refers to the return on assets of a firm i in periods t +1, t+2, t+3, t+4 and t+5 respectively on the basis of basis of a firm i in a year t.

To measure sustainability of financial performance through impact of strategic positioning on cash flow from operation scaled by total assets, $CFO_{i,t}$ as well as sustainability of cash flows ($CFO_{i,t+j}$) were analyzed on the basis of multiple regression. ($CFO_{i,t+j}$) of firm i in periods t+1, t+2, t+3, t+4 and t+5 respectively on the basis of

base year. Considering the given information, following multiple regressions were analyzed:

$$(CFO_{i,t+j})= Y_{0j} + Y_{1j} CFO_{i,t} + Y_{2j} CFO_{i,t} Diff_{i,t} + Y_{3j} CFO_{i,t} CL_{i,t} + \varepsilon_{i,t} \dots (iv) \text{ (Banker, et al., 2006)}$$

Where, $CFO_{i,t}$ is the average cash flows from operations divided by total assets of a firm i in a period t .

$CFO_{i,t+j}$ for $j = 1, 2, 3, 4, 5$ refers to the cash flow from operations divided by average total assets

To operationalize the stability of financial performance, it is constructed to measure the 'ROA Stability'. It is estimated through the following model to examine the impact of the strategies on the ROA stability:

$$ROAStability_{i,t} = \alpha_0 + \alpha_1 Diff_{i,t} + \alpha_2 CL_{i,t} + \varepsilon_{i,t} \dots (v) \text{ (Banker, et al., 2006)}$$

Where, $ROAStability_{i,t} = 1 - S.D.$ of ROA of a firm i in a period t

The finance literature presents two types of risk (a) systematic risk, and (b) firm-specific risk (Brealey, Myers & Allen, 2006). Portfolio theory in finance has shown that firm-specific risk is not priced since it can be eliminated by constructing diversified portfolios. Hence, only systematic risk affects the valuation of firms. The systematic risk of a firm can be measured by the firm's beta (β) which measures how sensitive its stock is to market movements. Thus, it estimates another model replacing $ROAStability_{i,t}$ with firm betas in following equation:

$$Beta_{i,t} = \alpha_0 + \alpha_1 Diff_{i,t} + \alpha_2 CL_{i,t} + \varepsilon_{i,t} \dots (vi) \text{ (Banker, et al., 2006)}$$

Having examined the differences in the sustainability of financial performance based on the firms' realized strategies, it further analyzes whether capital market participants recognize these differences while valuing firms. It examines the association of the strategy variables with stock prices to evaluate whether investors incorporate information related to the sustainability of financial performance in setting prices. This study utilizes a valuation model that captures the relation between current accounting information and prices and has been widely used in the accounting and finance literatures to assess the information content of variables with potential pricing

implications. The valuation model incorporates the relevance of accounting data in the valuation of firms by following a three-link process: (1) current earnings are useful for predicting future earnings, (2) future earnings are an indicator of the future dividend-paying ability of firms, and (3) expected future dividends are discounted to the present to infer quality value. Hence, based on this model, the value of a firm's equity can be expressed as a function of its earnings and book value, where the book value represents a stock measure that reflects the current value of stock, while earnings (a flow variable) measures increments to the book value based on the implication of current earnings on future earnings and after discounting these future earnings at a firm specific discount rate (Banker et al, 2006). The relation among the value of the firm, its book value, and its earnings is represented as follows:

$$P_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{Cl}_{i,t} + \beta_3 \text{BV}_{i,t} + \beta_4 \text{EPS}_{i,t} + \varepsilon_{i,t} \dots \dots \text{(vii)}$$

$$P_{i,t} = \alpha_0 + \alpha_1 \text{BV}_{i,t} + \alpha_2 \text{EPS}_{i,t} + \alpha_3 \text{EPS}_{i,t} \text{ Diff}_{i,t} + \alpha_4 \text{EPS}_{i,t} \text{ CL}_{i,t} + \varepsilon_{i,t} \dots \text{(viii) (Banker, et al., 2006)}$$

Where, $P_{i,t}$ = Average market price per share of a firm i in a period t and it is computed by selected enterprises of five-year moving average from fiscal year 2000/01 to 2011/12.

$\text{BV}_{i,t}$ = Average book value per share of a firm i in a period t and it is computed by selected enterprises of five-year moving average from fiscal year 2000/01 to 2011/12.

$\text{EPS}_{i,t}$ = Average earning per share of a firm i in a period t and it is computed by selected enterprises of five-year moving average from fiscal year 2000/01 to 2011/12.

2.4 Analysis of data

I. Structure of sustainability of financial performance

Financial performance is measured on the basis of different criteria. Different financial tools have been used in this study to measure sustainability of financial performance of Nepalese enterprises which are return on assets, cash available from operation to total assets, market value per share, book value per share and earning per share.

A. Return on assets

Return on assets (ROA) has been used as the measure of a firm's performance. Achieving a high ROA is an objective of most corporations. Furthermore, ROA is widely employed by managers and analysts as a measure of firms' performance. The patterns of ROA in such listed Nepalese enterprises are presented in table 2.6. The average return on assets varies greatly from one enterprise to another. The average return on assets is the largest for UNL (25 percent) followed by BNTL (7.1 percent), BNL (5 percent), SHL (2.5 percent), NLOL (1.9 percent), NBBUL (1.1 percent), RJML (0.6 percent), OHL (-1.5 percent), TRHL (-1.8 percent), HDL (-3 percent), SSML (-3.8 percent), GRUL (-10.1 percent) and FHL (-14.1 percent).

The percentage of return on assets varies widely within the individual enterprises. It varies from -1 percent to 14.3 percent for BNL, -6.2 percent to 15.6 percent for BNTL, 7.5 percent to 41.8 percent for UNL, -7.3 percent to 5.2 percent for NBBUL, -17.6 percent to 1.8 percent for GRUL, -30.3 percent to -1.6 percent for FHL, -20.1 percent to 19.7 percent for SSML, -17.2 percent to 11.2 percent for HDL, -3.9 percent to 4 percent for RJML, -2 percent to 5.4 percent for NLOL, -9.6 percent to 6.4 percent for OHL, -14.7 percent to 14.2 percent for SHL and -8.4 percent to 3.4 percent for TRHL. Standard deviation with average return on assets of 12 fiscal years (from 2000/01 to 2011/12) out of 13 enterprises is largest for UNL (12.7 percent) followed by SSML (11 percent), SHL (10.1 percent), HDL (8.7 percent), FHL (7 percent), BNTL (6.4 percent), OHL (5.6 percent), BNL (5.5 percent), GRUL (5.3 percent), TRHL (3.7 percent), NBBUL (2.9 percent), RJML (2.4 percent) and NLOL (1.8 percent).

Average return on assets of 13 enterprises is negative up to fiscal year 2005/06. Afterwards, it is positive in the remaining fiscal years. Weighted average of return on assets of 13 enterprises in 12 years is 0.7 percent. Similarly, standard deviation with average return on assets of 13 enterprises out of 12 fiscal years is the highest for 2011/12 (15.3 percent) and the lowest for the fiscal year 03/04 (7percent).

The trend of return on assets for hotel industry is increasing after 2007/08. Return on assets of HDL is very good after 2008/09 in comparison to previous results. Result of SSML is positive up to fiscal year 2006/07 except 2002/03 and 2005/06 after that it is negative. Return on assets of UNL, BNL and BNTL is satisfactory and is in increasing trend but the result of FHL and GRUL is very poor. Return on assets of NLOL, NBBUL and RJML is positive for all the fiscal years (except one year of NLOL and NBBUL, and three years of RJML) are positive but minimum.

Table 2.6**Return on assets of the selected enterprises for the period of 2000/01 - 2011/12 (percent)**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 5.1 | 4.7 | 1.9 | 4.3 | 3.6 | 2.4 | -2.4 | -1 | 1.6 | 12.2 | 13.5 | 14.3 | 5 | 5.5 |
| BNTL | 6.6 | 5.8 | 4.1 | 3.4 | 2.6 | -6.2 | 9.4 | 3.2 | 12.9 | 15.6 | 14.1 | 14 | 7.1 | 6.4 |
| UNL | 8.9 | 7.5 | 11.9 | 15 | 17.2 | 24.6 | 26.7 | 30.8 | 36.6 | 41.8 | 40.5 | 38.2 | 25 | 12.7 |
| NBBUL | 0.6 | 0.9 | -7.3 | 2.9 | 5.2 | 1.8 | 1.8 | 0.4 | 2.5 | 1.3 | 1.3 | 1.5 | 1.1 | 2.9 |
| GRUL | -12.6 | -9 | -8 | -11.6 | -11.4 | -13.5 | -12.8 | -1.9 | -13.8 | 1.8 | -10.4 | -17.6 | -10.1 | 5.3 |
| FHL | -19.1 | -30.3 | -13.1 | -6.9 | -16.4 | -15.4 | -14.5 | -1.6 | -8.5 | -14.6 | -12.4 | -16.1 | -14.1 | 7 |
| SSML | 2.6 | 0.6 | -2.8 | 0.8 | 1.5 | -1.6 | 19.7 | -5.9 | -5.7 | -20.1 | -19.2 | -15.7 | -3.8 | 11 |
| HDL | -17.2 | -14.8 | -8.9 | -7.6 | -4.7 | -4.3 | 0.5 | -0.7 | -3.3 | 5.5 | 8.8 | 11.2 | -3 | 8.7 |
| RJML | 0.4 | 1.7 | 1.6 | 2.3 | 1.5 | 4 | 1.5 | -2.4 | -3.9 | -2.5 | 0.2 | 2.8 | 0.6 | 2.4 |
| NLOL | -2 | 5.4 | 3 | 0.3 | 2.4 | 0.1 | 1.7 | 1.5 | 2.5 | 2.7 | 2.2 | 2.8 | 1.9 | 1.8 |
| OHL | -5.9 | -8.6 | -9.6 | -5.1 | -6.3 | -2.4 | 0.3 | 2 | 1.2 | 4.3 | 5.9 | 6.4 | -1.5 | 5.6 |
| SHL | 3.3 | -9.3 | -5.3 | -6.4 | -14.7 | -2.9 | 3.4 | 8.1 | 13.4 | 13.7 | 12.8 | 14.2 | 2.5 | 10.1 |
| TRHL | -1.7 | -0.7 | -8.4 | -5.5 | -5.1 | -5.2 | -3 | -0.7 | 0.2 | 2.7 | 2 | 3.4 | -1.8 | 3.7 |
| Mean | -2.4 | -3.6 | -3.2 | -1.1 | -1.9 | -1.4 | 2.5 | 2.5 | 2.8 | 5 | 4.6 | 4.6 | 0.7 | |
| S.D. | 8.9 | 10.7 | 7.1 | 7 | 9.2 | 9.7 | 11.2 | 9.1 | 12.7 | 15 | 14.9 | 15.3 | | |

Source: Annual report of individual company of each year

B. Cash from operations to total assets

Ratio of cash from operations to total assets has been used to measure sustainability of financial performance of Nepalese enterprises. The computed values of the ratio for the selected enterprises in 12 fiscal years are presented in table 2.7. The average value in the table indicates that cash available from operating activities to total assets is largest for UNL (25.6 percent) followed by NLOL (17 percent), RJML (15.1 percent), BNTL (13 percent), HDL (11.7 percent), BNL (10.4 percent), SHL (6.1 percent), TRHL (2.7 percent), GRRUL (1.6 percent), OHL (0.2 percent), SSML (0.1 percent), NBBUL (-2.6 percent) and FHL (-8.7 percent).

The ratio of cash from operations to total assets varies widely within the individual enterprises. It varies from 1.6 percent to 25.9 percent for BNL, 2.5 percent to 26.8 percent for BNTL, -20.3 percent to 53.6 percent for UNL, -22.5 percent to 20.4 for NBBUL, -7.8 percent to 11.9 percent for GRUL, -62.2 percent to 50.1 percent for FHL, 0 percent to 0.4 percent for SSML, -3.3 percent to 58.3 percent for HDL, -34.5 percent to 39.6 percent for RJML, -16.6 percent to 52.5 percent for NLOL, -0.1 percent to 0.9 percent for OHL, -9.6 percent to 25.2 percent for SHL and -0.7 percent to 8.2 percent for TRHL.

Standard deviation with average cash from operations to total assets of 12 fiscal years (from 2000/01 to 2011/12) out of 13 enterprises is largest for FHL (30.2) followed by UNL (18.4), RJML (17.6), NLOL (17.1), HDL (16.1), NBBUL (14.3), SHL (11.4), BNTL (9.1), BNL (6.9), GRUL (5.6), TRHL (3), OHL (.3) and SSML (0.1). Average percent of cash flow from operation to total assets of 13 enterprises varies from one fiscal year to another and it lies “between” 3.1 percent to 12 percent. Weighted average of cash flow from operation to total assets of 13 enterprises in 12 years is 7.1 percent. Similarly, standard deviation with average cash flow from operation to total assets of 13 enterprises out of 12 fiscal years is largest for 2008/09 (24.9), 11/12 (23.6), 01/02 (18.8), 00/01 (18.7), 02/03 (18.2), 03/04 (17.1), 10/11 (15.4), 05/06 (14.9), 09/10 (11.3), 07/08 (11.2), 06/07 (9.2) and 04/05 (7.2). Result of NLOL is satisfactory except fiscal year 2011/12. Result of BNL and BNTL is satisfactory of fiscal years, UNL is satisfactory except fiscal year 2000/01 and HDL is satisfactory except fiscal year 2008/09. Result of SHL and TRHL after 2005/06 is better in comparison to the result before 2005/06. Result of OHL is not satisfactory. Result of RJML is satisfactory except for the fiscal year 2001/02. Result of SSML is poor but not negative in any fiscal years. Result of GRUL of 5 fiscal years out of 12 is negative and remaining’s are not satisfactory. Similarly, result of 7 fiscal years of NBBUL is negative and 2 years out of remaining 5 fiscal years are very poor. Result of FHL is negative in six fiscal years out of twelve.

Table 2.7**Cash from operations to total assets of the selected enterprises for the period of 2000/01 - 2011/12 (percent)**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 9.6 | 6.6 | 1.6 | 3.5 | 2.9 | 15.6 | 13.8 | 9.4 | 7.3 | 25.9 | 13.4 | 15 | 10.4 | 6.9 |
| BNTL | 7 | 6.3 | 7.1 | 7.9 | 2.5 | 5.4 | 5.3 | 25.1 | 22.6 | 17.6 | 26.8 | 22.9 | 13 | 9.1 |
| UNL | -20.3 | 45.6 | 37 | 17.8 | 14.4 | 21.3 | 25.4 | 22.5 | 53.6 | 28.8 | 34.3 | 27.2 | 25.6 | 18.4 |
| NBBUL | -3.2 | -3.6 | 11.3 | 1.7 | -9.8 | 4.1 | -10.3 | -14.5 | -22.2 | 20.4 | -22.5 | 17.9 | -2.6 | 14.3 |
| GRUL | -0.3 | -3.6 | 10.9 | 4.4 | 2.6 | 3 | 0.2 | -2 | 11.9 | -7.8 | 1.7 | -2 | 1.6 | 5.6 |
| FHL | 50.1 | -1.5 | -2.3 | -41 | 0.1 | -4.7 | 0.4 | 1 | -52.8 | 8.7 | 0 | -62.2 | -8.7 | 30.2 |
| SSML | 0 | 0 | 0 | 0 | 0.1 | 0 | 0.2 | 0.4 | 0.2 | 0.1 | 0.1 | 0 | 0.1 | 0.1 |
| HDL | 8 | 4.1 | 58.3 | 20 | 14.8 | 7.8 | 14.2 | 9 | -3.3 | 1.9 | 0.3 | 5 | 11.7 | 16.1 |
| RJML | 39.6 | -34.5 | 13.6 | 13.2 | 11.3 | 17.6 | 15 | 17.6 | 21.3 | 22.4 | 29.8 | 14.9 | 15.1 | 17.6 |
| NLOL | 23.7 | 29.9 | 8.7 | 32.8 | 11 | 52.5 | 2 | 18.4 | 13 | 13.2 | 15.8 | -16.6 | 17 | 17.1 |
| OHL | 0 | 0.2 | 0 | 0.2 | 0.3 | 0.1 | 0 | 0.2 | 0.3 | 0.9 | 0.8 | -0.1 | 0.2 | 0.3 |
| SHL | 2.5 | -9.6 | -9.2 | -4.7 | -1.2 | 3.5 | 7.1 | 7.8 | 18.3 | 17.1 | 16.7 | 25.2 | 6.1 | 11.4 |
| TRHL | 2.3 | 0.3 | -0.3 | -0.1 | -0.7 | 1.1 | 1.3 | 2.7 | 4.8 | 6.2 | 6.1 | 8.2 | 2.7 | 3 |
| Mean | 9.1 | 3.1 | 10.5 | 4.3 | 3.7 | 9.8 | 5.7 | 7.5 | 5.8 | 12 | 9.5 | 4.3 | 7.1 | |
| S.D. | 18.7 | 18.8 | 18.2 | 17.1 | 7.2 | 14.9 | 9.2 | 11.2 | 24.9 | 11.3 | 15.4 | 23.6 | | |

Source: Annual report of individual company of each year

C. Market value per share

Sustainability of financial performance has a bearing on market value per share. The market values per share for the selected enterprises in 12 fiscal years are presented in table 2.8. The average value in the table indicates that market value per share is largest for UNL (Rs 3020.08) followed by BNL (Rs. 817.33), BNTL (Rs. 625.58), NLOL (Rs. 342.17), SHL (Rs. 121.08), HDL (Rs 100), SSML (Rs 95.42), OHL (Rs 88.92), TRHL (Rs 85.58), FHL (Rs 75), NBBUL (Rs 72.67), RJML (Rs. 72) and GRUL (Rs. 40.08).

The market value per share varies widely within the individual enterprises. It varies Rs. 500 to Rs. 1729 for BNL, Rs. 400 to Rs. 1000 for BNTL, Rs. 1130 to Rs. 6300 for UNL, Rs. 63 to Rs. 100 for NBBUL, Rs. 21 to Rs. 82 for GRUL, Rs. 75 of each fiscal year for FHL, Rs. 45 in 2000/01 and Rs. 100 remaining fiscal years for SSML, Rs. 94 and Rs. 105 of fiscal years 2005/06 and 2006/07 respectively and Rs. 100 in remaining fiscal years for HDL, Rs. 16 up to 2003/04 after that Rs. 100 for RJML, Rs. 246 to Rs. 580 for NLOL, Rs. 42 to Rs. 193 for OHL, Rs. 50 to Rs. 236 for SHL and Rs. 39 to Rs. 230 for TRHL.

On the basis of average market value per share of 13 firms, it is decreased from fiscal year 2000/01 to 2002/03 than after it is increased up to 2008/09. This value is reduced in fiscal year 2009/10 after that it is in increasing trend. Weighted average value of market value per share of 13 enterprises in 12 years is Rs. 427.38.

Standard deviation with average market value per share of 12 fiscal years (from 2000/01 to 2011/12) out of 13 enterprises is largest for UNL (Rs.1712.94) followed by BNL (Rs. 424.19), BNTL (Rs. 219.59), NLOL (Rs. 105.48), SHL (Rs. 67.66), (TRHL Rs. 63.98), OHL (Rs. 56.01), RJML (Rs. 41.36), NBBUL (Rs. 16.49), SSML (Rs. 15.88), GRUL (Rs. 14.94), HDL (Rs. 2.37 and FHL (nil). Similarly, standard deviation with average market value per share of 13 enterprises out of 12 fiscal years is largest for 2011/12 (Rs. 1728.22) followed by 10/11 (Rs.1332.37), 08/09 (Rs. 1141.38), 09/10 (Rs. 1114.4), 07/08 (Rs. 1099.95), 06/07 (Rs. 909.15), 05/06 (Rs. 668.64), 04/05 (Rs. 445.01), 03/04 (Rs. 387.46), 01/02 (Rs. 391.91), 00/01 (Rs. 383.11) and 02/03 (Rs. 335.71). Trend of results of standard deviation is almost increasing from fiscal year 2000/01 to 2011/12.

Table 2.8**Average market value per share in rupees of the selected firms for the period of 2000/01 - 2011/12 (Rupees)**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 700 | 700 | 700 | 554 | 635 | 500 | 500 | 700 | 700 | 700 | 1729 | 1690 | 817.33 | 424.19 |
| BNTL | 710 | 540 | 435 | 450 | 413 | 400 | 400 | 700 | 742 | 728 | 989 | 1000 | 625.58 | 219.59 |
| UNL | 1250 | 1350 | 1130 | 1400 | 1631 | 2500 | 3400 | 4100 | 4250 | 4149 | 4781 | 6300 | 3020.08 | 1712.94 |
| NBBUL | 100 | 100 | 100 | 63 | 63 | 63 | 63 | 64 | 64 | 64 | 64 | 64 | 72.67 | 16.49 |
| GRUL | 82 | 32 | 21 | 28 | 50 | 39 | 39 | 38 | 38 | 38 | 38 | 38 | 40.08 | 14.94 |
| FHL | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 0 |
| SSML | 45 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 95.42 | 15.88 |
| HDL | 100 | 100 | 100 | 100 | 100 | 94 | 105 | 100 | 101 | 100 | 100 | 100 | 100 | 2.37 |
| RJML | 16 | 16 | 16 | 16 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 72 | 41.36 |
| NLOL | 580 | 480 | 400 | 350 | 350 | 350 | 350 | 250 | 250 | 250 | 250 | 246 | 342.17 | 105.48 |
| OHL | 49 | 48 | 49 | 42 | 50 | 44 | 86 | 185 | 193 | 150 | 79 | 92 | 88.92 | 56.01 |
| SHL | 140 | 100 | 75 | 65 | 50 | 55 | 126 | 236 | 207 | 229 | 87 | 83 | 121.08 | 67.66 |
| TRHL | 100 | 50 | 44 | 39 | 40 | 43 | 55 | 68 | 78 | 78 | 202 | 230 | 85.58 | 63.98 |
| Mean | 303.62 | 283.92 | 249.62 | 252.46 | 281.31 | 335.62 | 415.31 | 516.62 | 530.62 | 520.08 | 661.08 | 778.31 | 427.38 | |
| S.D. | 383.11 | 391.39 | 335.71 | 387.46 | 445.01 | 668.64 | 909.15 | 1099.95 | 1141.38 | 1114.4 | 1332.37 | 1728.22 | | |

Source: Annual report of Nepal Stock Exchange

D. Book value per share

Book value per share is also an indicator of sustainability of financial performance. Book value values per share for the selected enterprises in 12 fiscal years are presented in table 2.9. The average value in the table indicates that book value per share is the largest for UNL (Rs. 539.64), followed BNL (Rs. 346.98), BNTL (Rs 295.53), NLOL (Rs. 214.05), NBBUL (Rs. 117.57), TRHL (Rs 94.47), RJML (Rs. 83.85), HDL (Rs 44.82), SHL (Rs 33.26), SSML (Rs 19.25), OHL (Rs 12.88), GRUL (Rs. -77.74) and FHL (Rs. -229.81). The book value per share varies widely within the individual enterprises. It varies Rs. 230.27 to Rs. 516.57 for BNL, Rs. 172.98 to Rs. 512.12 for BNTL, Rs. 235.62 to Rs. 1213.49 for UNL, Rs. 68.03 to Rs. 116.73 for NBBUL, Rs. -137.7 to Rs. 2.1 for GRUL, Rs. -410.78 to Rs. -46.16 for FHL, Rs. -151.2 to Rs. 92.63 for SSML, Rs. 19.35 to Rs. 73.83 for HDL, Rs. 15.04 to Rs. 107.28 for RJML, Rs. 183.04 to Rs. 257.81 for NLOL, Rs. -14.23 to 65.93 for OHL, Rs. 18.54 to Rs. 65.05 for SHL and Rs. 25.38 to Rs. 173.31 for TRHL.

Table 2.9 also reveals the result of average book value per share of 13 firms in 12 different fiscal years. The trend of average book value per share of 13 firms is decreasing up to the fiscal year 2006/07 and then it is increasing gradually. Weighted average value of book value per share of 13 enterprises in 12 year is Rs. 144.53.

Among the results of standard deviation of average book value per share of 12 fiscal years for selected enterprises, it is largest for UNL (Rs. 336.96) followed by FHL (Rs. 108.33), BNTL (Rs. 90.76), SSML (Rs. 82.53), BNL (Rs. 75.31), TRHL (Rs. 46.4), GRUL (Rs. 46.27), NBBUL (Rs. 28.86), OHL (Rs. 26.31), RJML (Rs. 25.54), and NLOL (Rs. 23.47), HDL (Rs. 17.95) and SHL (Rs. 12.4). Similarly, standard deviation with average book value per share of 13 enterprises out of 12 fiscal years is largest for 2011/12 (Rs. 339.74) followed by 10/11 (Rs. 322.62), 09/10 (Rs. 288.03), 08/09 (Rs. 246.38), 03/04 (Rs. 169.28), 04/05 (Rs. 159.9), 02/03 (Rs. 157.05), 07/08 (Rs. 156.88), 05/06 (Rs. 152.58), 06/07 (Rs. 143.29), 01/02 (Rs. 144.77) and 00/01 (Rs. 134.84). The trend of results of standard deviation is almost increasing from fiscal year 2000/01 to 2011/12.

Table 2.9**Book value per share in rupees of the selected firms for the period of 2000/01 - 2011/12 (Rupees)**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 352.47 | 357.09 | 362.03 | 373.11 | 390.94 | 361.52 | 230.27 | 247.41 | 276.99 | 316.05 | 379.34 | 516.57 | 346.98 | 75.31 |
| BNTL | 309.54 | 315.11 | 326.85 | 318.1 | 331.55 | 217.56 | 172.98 | 184.4 | 229.14 | 284.87 | 344.11 | 512.12 | 295.53 | 90.76 |
| UNL | 371.83 | 378.11 | 389.3 | 430.12 | 235.62 | 244.29 | 255.01 | 304.64 | 747.11 | 901.89 | 1004.3 | 1213.49 | 539.64 | 336.96 |
| NBBUL | 96.58 | 101.03 | 68.03 | 81.86 | 113.97 | 112.9 | 121.14 | 115.5 | 142.04 | 138.69 | 152.31 | 166.73 | 117.57 | 28.86 |
| GRUL | 2.1 | -16.89 | -31.58 | -51.52 | -70.03 | -91.38 | -110.92 | -134.86 | -137.7 | -73.25 | -91.79 | -125 | -77.74 | 46.27 |
| FHL | -46.16 | -106.87 | -136.49 | -152.68 | -189.03 | -223.68 | -255.75 | -265.48 | -285.16 | -325.52 | -360.1 | -410.78 | -229.81 | 108.33 |
| SSML | 90.14 | 92.63 | 81.87 | 84.03 | 89.84 | 84.94 | 17.73 | -2.21 | -15.56 | -60.06 | -81.11 | -151.2 | 19.25 | 82.53 |
| HDL | 73.83 | 67.98 | 58.55 | 47.8 | 40.49 | 33.92 | 34.74 | 22.45 | 19.35 | 29.52 | 45.87 | 63.37 | 44.82 | 17.95 |
| RJML | 15.04 | 97.92 | 100.54 | 104.51 | 107.28 | 97.26 | 101.11 | 87.54 | 77.25 | 68.85 | 69.44 | 79.46 | 83.85 | 25.54 |
| NLOL | 183.04 | 190.22 | 195.63 | 200.85 | 200.92 | 201.79 | 209.43 | 220.9 | 227.4 | 257.81 | 231.55 | 249.05 | 214.05 | 23.47 |
| OHL | 65.93 | 43.7 | 19.29 | 6.43 | -8.61 | -14.23 | -13.45 | -8.49 | -5.57 | 4.79 | 21.16 | 43.6 | 12.88 | 26.31 |
| SHL | 65.05 | 41.23 | 36.88 | 31.47 | 20.86 | 18.54 | 20.16 | 26.53 | 33.17 | 36.59 | 33.8 | 34.89 | 33.26 | 12.4 |
| TRHL | 110.73 | 110.74 | 72.35 | 47.47 | 25.38 | 38.37 | 95.69 | 93.89 | 173.31 | 173.31 | 89.48 | 102.94 | 94.47 | 46.4 |
| Mean | 130.01 | 128.62 | 118.71 | 117.04 | 99.17 | 83.22 | 67.55 | 68.63 | 113.98 | 134.89 | 141.41 | 176.56 | 144.53 | |
| S.D. | 134.84 | 144.77 | 157.05 | 169.28 | 159.9 | 152.58 | 143.29 | 156.88 | 246.38 | 288.03 | 322.62 | 399.74 | | |

Source: Annual report of individual company of each year

E. Earning per share

Table 2.10 presents the earning per share, average earning per share and their standard deviations of 13 firms for 12 fiscal years separately. The average value in the table indicates that earning per share is largest for UNL (Rs. 338.19), followed by BNTL (Rs. 51.41), BNL (Rs 38.3), NLOL (Rs. 15.51), NBBUL (Rs. 13.66), SHL (Rs 1.92), RJML (Rs. 0.98), OHL (Rs -3.22), HDL (Rs -3.81), SSML (Rs -7.89), TRHL (Rs -8.93), GRUL (Rs. -17.98) and FHL (Rs. -33.54). The earning per share vary widely within the individual enterprises.

It varies Rs. -15.55 to Rs. 143.65 for BNL, Rs. -21.5 to Rs. 171.01 for BNTL, Rs. 46.28 to Rs. 799.19 for UNL, Rs. -33 to Rs. 36.54 for NBBUL, Rs. -33.21 to Rs. 3.4 for GRUL, Rs. -60.72 to Rs. -4.19 for FHL, Rs. -54.74 to Rs. 67.2 for SSML, Rs. -26.64 to Rs. 19.69 for HDL, Rs. -10.29 to Rs. 10.02 for RJML, Rs. -10.84 to Rs. 32.5 for NLOL, Rs. -24.3 to Rs 22.44 for OHL, Rs. -10.61 to Rs. 10.7 for SHL and Rs. -38.39 to Rs. 8.48 for TRHL.

An Average earning per share in fiscal years 2000/01 is positive value but it is minimum. The trend of this value is decreasing from 2000/01 to 2002/03 and it is negative value in 2002/03 only. The trend is increasing from 2002/03 to 2011/12. Weighted average value of earning per share of 13 enterprises in 12 years is Rs. 29.59.

Among the results of standard deviation of average earning per share in 12 fiscal years of selected enterprises, standard deviation is largest for UNL (Rs. 251.22) followed by BNTL (Rs. 55.64), BNL (Rs. 51.68), SSML (Rs. 31.33), NBBUL (Rs. 18.32), OHL (Rs. 15.24), FHL (Rs. 14.9), TRHL (Rs. 14.82), HDL (Rs. 14.12), NLOL (Rs. 13.37), GRUL (Rs. 9.89), SHL (Rs. 7.51) and RJML (Rs. 6.47).

Similarly, standard deviation with average earning per share of 13 enterprises out of 12 fiscal years is largest for 2011/12 (Rs. 223.55) followed by 10/11 (Rs. 185.73), 09/10 (Rs. 174.41), 08/09 (Rs. 134.35), 07/08 (Rs. 101.27), 06/07 (Rs. 81.79), 05/06 (Rs. 75.11), 04/05 (Rs. 60.57), 03/04 (Rs. 45.37), 02/03 (Rs. 36.3), 00/01 (Rs. 30.3) and 01/02 (28.67). The trend of results of standard deviation is almost increasing from fiscal year 2000/01 to 2011/12.

Table 2.10**Earning per share in rupees of the selected firms for the period of 2000/01 - 2011/12 (Rupees)**

| Firm/FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 26.86 | 24.94 | 9.94 | 19.4 | 17.82 | 12.81 | -15.55 | -5.86 | 10.54 | 91.08 | 123.95 | 143.65 | 38.3 | 51.68 |
| BNTL | 34.97 | 32.35 | 21.95 | 16.15 | 13.45 | -21.5 | 40.57 | 11.42 | 64.95 | 110.07 | 121.48 | 171.01 | 51.41 | 55.64 |
| UNL | 73.91 | 46.28 | 101.19 | 152.91 | 205.5 | 258.67 | 285.72 | 363.99 | 482.29 | 626.19 | 662.41 | 799.19 | 338.19 | 251.22 |
| NBBUL | 2.68 | 4.45 | -33 | 13.83 | 32.11 | 11.92 | 18.24 | 4.36 | 36.54 | 24.69 | 23.62 | 24.43 | 13.66 | 18.32 |
| GRUL | -27.62 | -18.99 | -14.69 | -19.94 | -18.52 | -21.34 | -19.54 | -2.85 | -23.94 | 3.4 | -18.54 | -33.21 | -17.98 | 9.89 |
| FHL | -40.62 | -60.72 | -29.62 | -16.19 | -36.35 | -34.64 | -32.08 | -4.19 | -22.5 | -40.36 | -34.58 | -50.68 | -33.54 | 14.9 |
| SSML | 9.33 | 2.29 | -10.75 | 2.9 | 5.05 | -4.9 | 67.2 | -16.76 | -13.34 | -44.51 | -54.74 | -36.4 | -7.89 | 31.33 |
| HDL | -26.64 | -21.99 | -13.25 | -10.75 | -7.32 | -6.57 | 0.81 | -1.2 | -4.98 | 10.17 | 16.35 | 19.69 | -3.81 | 14.12 |
| RJML | 0.09 | 2.95 | 2.62 | 3.97 | 2.77 | 10.02 | 3.85 | -6.41 | -10.29 | -8.4 | 0.59 | 10.02 | 0.98 | 6.47 |
| NLOL | -10.84 | 30.63 | 20.89 | 1.51 | 15.08 | 0.86 | 11.63 | 11.48 | 21.5 | 30.41 | 20.48 | 32.5 | 15.51 | 13.37 |
| OHL | -15.89 | -22.39 | -24.3 | -12.87 | -15.05 | -5.63 | 0.74 | 4.72 | 2.84 | 10.34 | 16.38 | 22.44 | -3.22 | 15.24 |
| SHL | 3.32 | -6.86 | -4.35 | -5.11 | -10.61 | -2.13 | 2.63 | 6.32 | 10.21 | 10.7 | 8.91 | 9.99 | 1.92 | 7.51 |
| TRHL | -7 | -3.24 | -38.39 | -24.89 | -22.09 | -22.55 | -8.45 | -1.85 | 0.6 | 7.18 | 5.04 | 8.48 | -8.93 | 14.82 |
| Mean | 1.73 | 0.75 | -0.9 | 9.3 | 13.99 | 13.46 | 27.37 | 27.94 | 42.65 | 63.92 | 68.57 | 86.24 | 29.59 | |
| S.D. | 30.3 | 28.67 | 36.3 | 45.37 | 60.57 | 75.11 | 81.79 | 101.27 | 134.35 | 174.41 | 185.73 | 223.55 | | |

Source: Annual audit report of individual company of each year

II. Factor analysis

The initial four variables, namely, MARGIN, SG&A, CAPEX and CAPINT are reduced into two variables by performing factor analysis. These four variables of correlation matrix are presented in table 2.11.

Table 2.11
Correlation matrix

| | MARGIN | SG&A | CAPEX | CAPINT |
|--------|--------|--------|--------|--------|
| MARGIN | 1 | | | |
| SG&A | 0.798* | 1 | | |
| CAPEX | 0.359* | 0.405* | 1 | |
| CAPINT | 0.6* | 0.416* | 0.578* | 1 |

Note: * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels

Above table presents high degree of positive correlations between Margin and SG&A at 1 percent LOS. There is moderate degree of positive correlation between MARGIN and CAPINT as well as CAPEX and CAPINT at 1 percent LOS. There is low degree of positive correlation between MARGIN and CAPEX, SG&A and CAPEX as well as SG&A and CAPINT at 1 percent LOS.

KMO and Bartlett's Test of four strategic variables are presented in table 2.12

Table 2.12
KMO and Bartlett's test

| Particulars | Results | |
|--|--------------------|---------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | 0.567 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 200.147 |
| | df | 6 |
| | Sig. | 0 |

The KMO measures the sampling adequacy, which should be greater than 0.5 for a satisfactory factor analysis to proceed (Hutcheson & Sofroniou, 1999). Table 2.12 shows that KMO measure is 0.567 and therefore it is satisfactory. Rotated component matrix and communalities of four strategic variables are presented in table 2.13.

Table 2.13**Rotated component matrix and communalities**

| | Component | | Communalities |
|-----------------|-----------|-------|---------------|
| | Diffit | CLit | |
| SG&A | 0.914 | | .879 |
| MARGIN | 0.911 | | .912 |
| CAPEX | | 0.908 | .864 |
| CAPINT | | 0.787 | .744 |

MARGIN and SG&A support component 1 and it is denoted by differentiation strategy and remaining two variables support component 2 and it is denoted by cost leadership strategy. (Banker et.al, 2006). With all communalities above 0.6, relatively small samples (less than 100) may be perfectly adequate. With communalities in the 0.5 range, samples between 100 and 200 can be good enough (MacCallum, Widaman, Zhang & Hong, 1999). Therefore, above value of communalities of each component is sufficient in 104 numbers of observations.

Total variance explained of differentiation and cost leadership strategy has been presented in table 2.14.

Table 2.14**Total variance explained**

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings Rotation Sums of Squared Loadings | | | | | |
|-----------------|---------------------|---------------|--------------|---|---------------|--------------|-------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| SG&A | 2.589 | 64.732 | 64.732 | 2.589 | 64.732 | 64.732 | 1.832 | 45.79 | 45.79 |
| MARGIN | 0.81 | 20.256 | 84.988 | 0.81 | 20.256 | 84.988 | 1.568 | 39.198 | 84.988 |
| CAPEX | 0.457 | 11.432 | 96.42 | | | | | | |
| CAPINT | 0.143 | 3.58 | 100 | | | | | | |

Extraction Method: Principal Component Analysis.

Table 2.14 shows all the factors extractable from the analysis along with their eigenvalues, the percent of variance attributable to each factor, and the cumulative variance of the factor. First factor accounts for 64.732 percent of the variance, the second 20.256 percent, a total of 84.988 percent of the total variance. Each of the remaining factors controls only small amounts of variance, which is 15.002 percent.

III. Descriptive statistics

Table 2.15 offers descriptive statistics on the strategic variables of a firm i in a year t (differentiation and cost leadership), return on assets of a firm i in a year t , return on assets of a firm i in future period $t+1$ to $t+5$, cash flow from operation to total assets of a firm i in a year t , cash flow from operation to total assets of a firm i in future period $t+1$ to $t+5$, market value per share of a firm i in a year t , book value per share of a firm i in a year t and earning per share of a firm i in a year t .

Table 2.15
Descriptive statistics

| | Unit | N | Mean | Median | Std. Deviation | Minimum | Maximum |
|----------------------------|--------|-----|---------|---------|----------------|---------|---------|
| Diff_{i,t} | Ratio | 104 | 0 | -0.1977 | 1 | -1.2043 | 2.87624 |
| CL_{i,t} | “ | 104 | 0 | -0.1381 | 1 | -0.7884 | 8.2288 |
| ROA_{i,t} | “ | 104 | 0.00606 | 0.0115 | 0.096 | -0.1717 | 0.37598 |
| ROA_{i,t+1} | “ | 91 | 0.01038 | 0.01366 | 0.09784 | -0.1642 | 0.37598 |
| ROA_{i,t+2} | “ | 78 | 0.01582 | 0.01398 | 0.09991 | -0.1334 | 0.37598 |
| ROA_{i,t+3} | “ | 65 | 0.02102 | 0.01413 | 0.103 | -0.1334 | 0.37598 |
| ROA_{i,t+4} | “ | 52 | 0.02602 | 0.01504 | 0.10768 | -0.1334 | 0.37598 |
| ROA_{i,t+5} | “ | 39 | 0.03179 | 0.0156 | 0.1129 | -0.1334 | 0.37598 |
| CFO_{i,t} | “ | 104 | 0.06547 | 0.04221 | 0.08615 | -0.1055 | 0.33265 |
| CFO_{i,t+1} | “ | 91 | 0.06842 | 0.04233 | 0.08947 | -0.1055 | 0.33265 |
| CFO_{i,t+2} | “ | 78 | 0.07159 | 0.04578 | 0.09126 | -0.1055 | 0.33265 |
| CFO_{i,t+3} | “ | 65 | 0.07579 | 0.04911 | 0.0944 | -0.1055 | 0.33265 |
| CFO_{i,t+4} | “ | 52 | 0.08252 | 0.05668 | 0.09876 | -0.1055 | 0.33265 |
| CFO_{i,t+5} | “ | 39 | 0.08977 | 0.06549 | 0.10149 | -0.0982 | 0.33265 |
| MVPS_{i,t} | Rupees | 104 | 403.939 | 100 | 822.017 | 32.8 | 4716 |
| BVPS_{i,t} | “ | 104 | 112.217 | 82.9486 | 212.848 | -329.41 | 1232.75 |
| EPS_{i,t} | “ | 104 | 25.9303 | 3.9205 | 96.473 | -36.698 | 586.814 |

Table 2.15 reports the descriptive statistics of all the variables which have been used in this study in different numbers of observations. Mean value and standard deviation of both strategies i.e. cost leadership and differentiation are 0 and 1 respectively. Median value of differentiation strategy and cost leadership strategy is -0.1977 and -0.1381 respectively. Maximum and minimum value of differentiation strategy and cost leadership strategy are (-1.2043, 2.87624) and (-0.7884, 8.2288) respectively.

IV. Correlation analysis

Table 2.16 presents the Pearson correlation analyses of the strategic variables of a firm *i* in a year *t*, return on assets of a firm *i* in a year *t*, *t*+1 to *t*+5, cash from operations to total assets of a firm *i* in a year *t*, *t*+1 to *t*+5, market value per share of a firm *i* in a year *t*, book value per share of a firm *i* in a year *t*, and earning per share of a firm *i* in a year *t*

Table 2.16
Correlation analysis

| | Diff _{<i>i,t</i>} | CL _{<i>i,t</i>} | ROA _{<i>i,t</i>} | ROA _{<i>i,t+1</i>} | ROA _{<i>i,t+2</i>} | ROA _{<i>i,t+3</i>} | ROA _{<i>i,t+4</i>} | ROA _{<i>i,t+5</i>} | CFO _{<i>i,t</i>} | CFO _{<i>i,t+1</i>} | CFO _{<i>i,t+2</i>} | CFO _{<i>i,t+3</i>} | CFO _{<i>i,t+4</i>} | CFO _{<i>i,t+5</i>} | MVPS _{<i>i,t</i>} | BVPS _{<i>i,t</i>} | EPS _{<i>i,t</i>} |
|-----------------------------|----------------------------|--------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|----------------------------|---------------------------|
| Diff _{<i>i,t</i>} | 1 | | | | | | | | | | | | | | | | |
| CL _{<i>i,t</i>} | 0 | 1 | | | | | | | | | | | | | | | |
| ROA _{<i>i,t</i>} | -0.137 | -0.158 | 1 | | | | | | | | | | | | | | |
| ROA _{<i>i,t+1</i>} | -0.107 | -0.192*** | .981* | 1 | | | | | | | | | | | | | |
| ROA _{<i>i,t+2</i>} | -0.057 | -0.214*** | .936* | .981* | 1 | | | | | | | | | | | | |
| ROA _{<i>i,t+3</i>} | 0.009 | -0.221*** | .867* | .936* | .982* | 1 | | | | | | | | | | | |
| ROA _{<i>i,t+4</i>} | 0.079 | -0.223 | .799* | .866* | .938* | .982* | 1 | | | | | | | | | | |
| ROA _{<i>i,t+5</i>} | 0.149 | -0.213 | .731* | .791* | .862* | .936* | .981* | 1 | | | | | | | | | |
| CFO _{<i>i,t</i>} | -.202** | -0.081 | .765* | .764* | .749* | .700* | .652* | .615* | 1 | | | | | | | | |
| CFO _{<i>i,t+1</i>} | -0.156 | -0.177*** | .727* | .771* | .768* | .745* | .688* | .633* | .954* | 1 | | | | | | | |
| CFO _{<i>i,t+2</i>} | -0.075 | -.236** | .659* | .730* | .772* | .759* | .730* | .663* | .896* | .956* | 1 | | | | | | |
| CFO _{<i>i,t+3</i>} | 0.032 | -.261** | .589* | .673* | .740* | .774* | .761* | .737* | .814* | .896* | .960* | 1 | | | | | |
| CFO _{<i>i,t+4</i>} | 0.125 | -0.258*** | .529* | .607* | .690* | .752* | .790* | .784* | .716* | .818* | .914* | .966* | 1 | | | | |
| CFO _{<i>i,t+5</i>} | 0.206 | -0.252 | .485* | .559* | .637* | .715* | .782* | .820* | .622* | .710* | .838* | .933* | .970* | 1 | | | |
| MVPS _{<i>i,t</i>} | -0.114 | -0.166*** | .844* | .854* | .858* | .858* | .853* | .850* | .743* | .737* | .730* | .727* | .728* | .731* | 1 | | |
| BVPS _{<i>i,t</i>} | -0.104 | -0.056 | .759* | .778* | .728* | .687* | .673* | .683* | .562* | .528* | .497* | .493* | .517* | .561* | .652* | 1 | |
| EPS _{<i>i,t</i>} | -0.131 | -0.177*** | .869* | .877* | .879* | .876* | .871* | .865* | .724* | .709* | .692* | .679* | .674* | .674* | .981* | .649* | 1 |

Note: * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels

The correlation analysis gives this study some insights into the relationships between different variables of interest. Differentiation strategy has low degree of negative correlation with cash flow from operation to total assets at 5 percent LOS. Cost leadership strategy has low degree of inverse relations with return on assets in period 1, 2 and 3 at 10 percent LOS. Similarly, cost leadership strategy has low degree of negative correlation with cash flow from operation to total assets in period 1 at 10 percent, period 2 and 3 at 5 percent, and period 4 at 10 percent, market value per share at 10 percent, earning per share at 10 percent LOS.

V. Regression analysis

To examine which of two generic strategies (differentiation and cost leadership) leads to sustain financial performance, this study has used the regression model (ii), (iii), (iv) and (vii) only due to the lack of regression assumptions.

The regression result of return on assets from period t+1 to t+4 on return on assets, interaction of return on assets with differentiation strategy and interaction of return on assets with cost leadership strategy variables are expressed by the following four regression models:

$$ROA_{i,t+1} = \alpha_0 + \beta_1 ROA_{i,t} + \beta_2 ROA_{i,t} Diff_{i,t} + \beta_3 ROA_{i,t} CL_{i,t} + \varepsilon_{i,t} \dots (i)$$

$$ROA_{i,t+2} = \alpha_0 + \beta_1 ROA_{i,t} + \beta_2 ROA_{i,t} Diff_{i,t} + \beta_3 ROA_{i,t} CL_{i,t} + \varepsilon_{i,t} \dots (ii)$$

$$ROA_{i,t+3} = \alpha_0 + \beta_1 ROA_{i,t} + \beta_2 ROA_{i,t} Diff_{i,t} + \beta_3 ROA_{i,t} CL_{i,t} + \varepsilon_{i,t} \dots (iii)$$

$$ROA_{i,t+4} = \alpha_0 + \beta_1 ROA_{i,t} + \beta_2 ROA_{i,t} Diff_{i,t} + \beta_3 ROA_{i,t} CL_{i,t} + \varepsilon_{i,t} \dots (iv)$$

Where, $ROA_{i,t}$ = Return on assets of selected enterprises of five-year moving average of fiscal year from 2000/01 to 2011/12 i.e. 8 period from 1 to 8. $ROA_{i,t} Diff_{i,t}$ = interaction of differentiation strategy with return on assets with respective periods of selected enterprises, $ROA_{i,t} CL_{i,t}$ = interaction of cost leadership strategy with return on assets of respective periods of selected enterprises, α_0 = constant value, β_1 , β_2 , β_3 are slopes of independent variables and $\varepsilon_{i,t} \dots$ is error term. $ROA_{i,t+1}$ to $ROA_{i,t+4}$ = Return on Assets of selected enterprises in period t+1 to t+4.

Glejser test has been used for detecting the problem of heteroscedasticity before dependent variable is regressed on independent variables and it exists in all regression models. Dependent and all independent variables have been divided by unstandardized predicted variables of respective model to minimize heteroscedasticity problem. The computed values of five regression equations of the selected enterprises are presented in table 2.17.

Of the regression results from multiple regression first, the explanatory power of the model is reasonably high given as the R^2 explains 81.2 percent area. The F-ratio is 124.864 is significant at 1 percent LOS. The value of DW 1.931 indicates that there is no autocorrelation problem. The coefficient value of ROA_{it} means that other variables keeping constant one unit (ratio) increases in ROA of t+1 will increase by 1.005 units (ratio) in ROA and it is statistically significant at 1 percent LOS.

Similarly, keeping other variables constant, one unit (ratio) increases in interaction of cost leadership strategy with ROA will increase by 0.099 units (ratio) in ROA_{it+1} . However the coefficient is statistically insignificant. When one unit (ratio) increases in interaction of differentiation strategy with ROA will decrease by 0.774 units (ratio) in $ROA_{i,t+1}$ by keeping other variables constant and it is statistically significant at 1 percent LOS. Value of VIF of independent variables is less than 10. Hence, all independent variables indicate that there is no multicollinearity problem i.e. there is no correlation between three independent variables.

The study presents the coefficient value of interaction of differentiation strategy with return on assets is negative at 1 percent LOS. But interaction of cost leadership strategy with return on assets is positive which is statistically insignificant. The regression result shows that out of three independent variables, the sign of two independent variables namely return on assets and interaction of cost leadership strategy with return on assets showed a positive impact on $ROA_{i,t+1}$. The sign of independent variable namely interactions of differentiation strategy with return on assets shows a negative impact on $ROA_{i,t+1}$. Hence, the result just contradicts the hypothesis one developed in this study.

Table 2.17

**Regression result of return on assets in period t+1 to 4 on return on assets,
interactions of differentiation strategy and cost leadership strategy with return on
assets of respective years**

| Variables | Model I | Model II | Model III | Model IV |
|---|----------------|-----------------|------------------|-----------------|
| Constant | | | | |
| Coefficient | 0.24 | 1.522* | 2.674* | 1.541* |
| S.E. | 0.241 | 0.33 | 0.377 | 0.372 |
| T Value | 0.995 | 4.618 | 7.093 | 4.139 |
| ROA_{it} | | | | |
| Coefficient | 1.005* | 0.028 | -2.459* | -1.081* |
| S.E. | 0.139 | 0.147 | 0.324 | 0.379 |
| T Value | 7.227 | 0.189 | -7.591 | -2.855 |
| VIF | 2.1 | 3.488 | 17.458 | 16.635 |
| ROA_{it}Diff_{it} | | | | |
| Coefficient | -0.774* | 0.248* | 1.055* | 0.492*** |
| S.E. | 0.109 | 0.047 | 0.131 | 0.248 |
| T Value | -7.123 | 5.244 | 8.062 | 1.983 |
| VIF | 2.053 | 1.597 | 20.071 | 15.518 |
| ROA_{it}CL_{it} | | | | |
| Coefficient | 0.099 | -0.856** | 0.699* | 0.68* |
| S.E. | 0.163 | 0.33 | 0.139 | 0.155 |
| T Value | 0.608 | -2.59 | 5.046 | 4.376 |
| VIF | 1.112 | 4.246 | 1.695 | 1.36 |
| R square | 0.812 | 0.349 | 0.52 | 0.347 |
| F value | 124.864* | 13.214* | 21.997* | 8.494* |
| D.W. | 1.931 | 2.070 | 1.914 | 1.990 |
| Number of observation | 91 | 78 | 65 | 52 |
| d.f. | 87 | 74 | 61 | 48 |
| Note: * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels | | | | |

This table 2.17 presents that F-ratio is 13.214 of regression model second. It is statistically significant at 1 percent LOS. Value of DW is 2.070 and it has been mentioned that there is neither positive nor negative auto correlation. Value of VIF less than 10 of all independent variables indicates that there is no relationship between all independent variables.

Coefficient value of both strategies i.e. differentiation and cost leadership is statistically significant at 1 percent and 5 percent LOS respectively. In a nutshell, this model explains 34.9 percent of total variation. Coefficient value of independent variable

interaction of differentiation strategy with ROA is positive but interaction of cost leadership strategy with ROA is negative at different LOS. Hence, the result is not clear in the context of hypothesis one.

Coefficient value of regression model third dependent and all three independent variables are statistically significant at 1 percent LOS. F-value is also statistically significant at 1 percent and DW shows that there is no positive and negative auto correlation. Value of VIF is greater than 10 in ROA and interaction of ROA with differentiation strategy but it is not serious problem because multicollinearity does not affect on predicted regression model (Gujrati, Porter & Gunasekar, 2012). This model has explained 52 percent area. Coefficient value of two independent variables which are interaction of differentiation strategy with ROA and interaction of cost leadership strategy with ROA is positive. Coefficient value of interaction of differentiation strategy with ROA is greater than interaction of cost leadership strategy. Therefore, result of this model is similar with prior expectation.

Coefficient value of interaction of differentiation strategy with ROA and interaction of cost leadership strategy with ROA is positive and statistically significant at 10 percent LOS and 1 percent LOS respectively of regression model four. F-value is significant at 1 percent level. It is predicted regression model. Hence, multicollinearity is not serious problem in this situation. Value of DW is approved that there is no auto correlation problem in this model. Coefficient value of interaction of differentiation strategy with ROA is less than interaction of cost leadership strategy with ROA at different LOS. This model accounts for 34.7 percent area. Hence, result is not clear in the context of hypothesis one.

In relation to analysis of relation between ROA in period t+1 to t+5, regressed on ROA, differentiation strategy, cost leadership strategy, interaction of differentiation strategy and cost leadership strategy with ROA, following regression models are used:

$$ROA_{i,t+1} = \alpha_0 + \beta_1 ROA_{i,t} + \beta_2 Diff_{i,t} + \beta_3 CL_{i,t} + \beta_4 ROA_{i,t} Diff_{i,t} + \beta_5 ROA_{i,t} CL_{i,t} + \varepsilon_{i,t} \dots (1)$$

$$ROA_{i,t+2} = \alpha_0 + \beta_1 ROA_{i,t} + \beta_2 Diff_{i,t} + \beta_3 CL_{i,t} + \beta_4 ROA_{i,t} Diff_{i,t} + \beta_5 ROA_{i,t} CL_{i,t} + \varepsilon_{i,t} (2)$$

$$ROA_{i,t+3} = \alpha_0 + \beta_1 ROA_{i,t} + \beta_2 Diff_{i,t} + \beta_3 CL_{i,t} + \beta_4 ROA_{i,t} Diff_{i,t} + \beta_5 ROA_{i,t} CL_{i,t} + \varepsilon_{i,t} (3)$$

$$ROA_{i,t+4} = \alpha_0 + \beta_1 ROA_{i,t} + \beta_2 Diff_{i,t} + \beta_3 CL_{i,t} + \beta_4 ROA_{i,t} Diff_{i,t} + \beta_5 ROA_{i,t} CL_{i,t} + \varepsilon_{i,t} \dots (4)$$

$$ROA_{i,t+5} = \alpha_0 + \beta_1 ROA_{i,t} + \beta_2 Diff_{i,t} + \beta_3 CL_{i,t} + \beta_4 ROA_{i,t} Diff_{i,t} + \beta_5 ROA_{i,t} CL_{i,t} + \varepsilon_{i,t} \dots (5)$$

Before dependent variable is regressed on independent variables, Glejser test has been used for detecting heteroscedasticity problem and that exists in all regression models. Dependent and all independent variables have been divided by unstandardized predicted variables of respective all five regression models to minimize heteroscedasticity problem. Multicollinearity problem does not have a bearing on the

predicted data. Hence, it is not serious problem. In the case of all above five models, value of F-ratio is statistically significant at 1 percent LOS and value of DW is approved that there is no auto correlation problem.

In the perspective of estimated result of model first, coefficient values of differentiation strategy, cost leadership strategy, interaction of differentiation strategy with return on assets and cost leadership strategy interaction with return on assets are positive. The sign of ROA shows a negative impact on $ROA_{i,t+1}$. Coefficient value of differentiation strategy with ROA is higher than cost leadership with ROA but this result is statistically significant at 1 percent and 5 percent LOS. Coefficient value of differentiation strategy is a little bit less than cost leadership. Coefficient values of both strategies are minimum but positive at 1 percent LOS. This multiple regression model covers 98 percent areas. Therefore, the result is not clear.

Regarding the second regression model, it accounts for 64.5 percent area as given in table 2.18. Coefficient value of independent variable of interaction of differentiation strategy with ROA is higher and positive than cost leadership strategy with ROA at 1 percent LOS. Coefficient value of cost leadership strategy is positive but minimum at 1 percent LOS and differentiation strategy is negative but statistically insignificant. Hence, result of this model is controversial.

The model third has explained 92.4 percent area. Coefficient value of differentiation strategy is negative but value is minimum and it is statistically significant at 5 percent LOS and cost leadership strategy is minimum positive value at 1 percent LOS. Similarly, coefficient value of ROA interaction with cost leadership strategy is greater than ROA interaction with differentiation strategy and both values are positive and statistically significant at 1 percent LOS. Hence, result of this model is just opposite as per the prior expectation.

Regarding the regression result of model fourth, coefficient value of differentiation strategy is statistically insignificant but coefficient value of cost leadership strategy, interaction of differentiation strategy with ROA and interaction of cost leadership strategy with ROA is positive and statistically significant at 1 percent level. Coefficient value of interaction of differentiation strategy with ROA is less than interaction of cost leadership strategy with ROA which is just opposite as per prior expectation on the basis of partial result. It has explained 93.2 percent variance.

Regression result of model fifth is presented that the coefficient value of cost leadership strategy is statistically insignificant. Coefficient values of other variables are statistically significant at 1 percent level. Coefficient value of differentiation strategy, interaction of differentiation strategy with ROA and cost leadership strategy with ROA is positive. Coefficient value of interaction of differentiation strategy with ROA is less than interaction of cost leadership strategy with ROA. Hence, the result is just opposite as per the prior expectation on the basis of partial result.

Table 2.18

Regression result of return on assets in period t+1 to 5 on return on assets, differentiation and cost leadership strategy and interactions of differentiation strategy and cost leadership strategy with return on assets of respective years

| Models | Model 1 | | | Model 2 | | | Model 3 | | | Model 4 | | | Model 5 | | |
|---|---|-------|---------|--|--------------|-------|--|--------|-------|--|--------|-------|--|--------|-------|
| Variables | Corff. | S.E. | T value | Corff. | T val. | SE | Corff. | T val. | SE | Corff. | T val. | SE | Corff. | T val. | SE |
| Constants | 2.691* | 0.361 | 7.449 | 4.023* | 9.355 | 0.43 | 2.868* | 7.239 | 0.396 | 2.06* | 6.011 | 0.342 | 2.93* | 8.481 | .35 |
| ROA _{i,t} | -2.049* | 0.322 | -6.35 | -3.51* | -10.5 | 0.334 | -1.9* | -5.56 | 0.341 | -1.3* | -3.98 | 0.310 | -1.57* | -6.11 | 0.26 |
| Diff _{i,t} | 0.006* | 0.001 | 9.162 | -0.004 | -0.95 | 0.005 | -.01** | -2.40 | 0.006 | 0 | -0.06 | .007 | 0.155* | 9.858 | 0.016 |
| CL _{i,t} | | | | | | | | | | | | | | | |
| ROA _{i,t} Diff _{i,t} | 0.018* | 0.004 | 4.475 | 0.064* | 7.086 | 0.009 | 0.081* | 14.2 | 0.006 | .089* | 14.05 | 0.006 | -.008 | -1.34 | .006 |
| ROA _{i,t} CL _{i,t} | 0.828* | 0.131 | 6.306 | 1.341* | 8.242 | 0.163 | 0.703* | 15.25 | 0.046 | .502* | 5.484 | 0.091 | 1,343* | 6.851 | 0.196 |
| | 0.37** | 0.18 | 1.423 | 1.282* | 4.746 | 0.27 | 1.932* | 12.92 | 0.15 | 2.26* | 11.6 | 0.02 | 3.434* | 9.49 | 0.362 |
| | R ² = 0.980 F = 836.848 * D.W. = 1.928 Number of observations, d.f. =91,85 | | | R ² = 0.645 F = 26.115* D.W. = 1.676 Number of Observations, d.f. = 78,72 | | | R ² =0.924 F = 143.666* D.W. = 1.868 Number of observations, d.f. = 65,59 | | | R ² = 0.932 F = 126.63* D.W. = 1.604 Number of observations, d.f. = 52,46 | | | R ² = 0.762 F = 21.089* D.W. = 1.633 Number of Observations, d.f. = 39,33 | | |
| Note: * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels | | | | | | | | | | | | | | | |

To analyze which of two generic strategies, differentiation and cost leadership, lead to sustainability of cash flows ($CFO_{i,t+j}$). This study utilizes the regression model three. To measure relationship between cash from operations in period t+1, to t+5 with cash from operations, interaction of differentiation strategy with cash from operations and interaction of cost leadership strategy with cash from operations of respective periods, variables can be expressed by the following formulae:

$$CFO_{i,t+1} = \alpha_0 + \beta_1CFO_{i,t} + \beta_2CFO_{i,t}Diff_{i,t} + \beta_3CFO_{i,t}CL_{i,t} + \varepsilon_{i,t} \dots \text{ (i)}$$

$$CFO_{i,t+4} = \alpha_0 + \beta_1CFO_{i,t} + \beta_2CFO_{i,t}Diff_{i,t} + \beta_3CFO_{i,t}CL_{i,t} + \varepsilon_{i,t} \dots \text{ (ii)}$$

$$CFO_{i,t+5} = \alpha_0 + \beta_1CFO_{i,t} + \beta_2CFO_{i,t}Diff_{i,t} + \beta_3CFO_{i,t}CL_{i,t} + \varepsilon_{i,t} \dots \text{ (iii)}$$

Where,

$CFO_{i,t+1}$, $CFO_{i,t+4}$ and $CFO_{i,t+5}$ = cash from operations of a firm i in periods t+1, t+4 and t+5. $CFO_{i,t}$ = cash from operations of a firm i in a period t

$CFO_{i,t}Diff_{i,t}$ = interaction of differentiation strategy with cash from operations of a firm i in period t

$CFO_{i,t}CL_{i,t}$ interaction of cost leadership strategy with cash from operations of a firm i in period t, β_0 = constant value, β_1 , β_2 , β_3 are slopes of independent variables and $\varepsilon_{i,t} \dots$ is error term. Before dependent variable is regressed on independent variables, Glejser test has been used for detecting heteroscedasticity problem and which is found in model second and third. Dependent and all independent variables have been divided by respective unstandardized predicted variables to minimize problem of heteroscedasticity. The computed values of the regression equations for the selected enterprises are presented in table 2.19.

This table presents the regression results of three models in which the value of DW is approved that there is no auto correlation problem. F-ratio is statistically significant at 1 percent LOS in the case of model first, but remaining two models are in 5 percent LOS. Value of VIF is less than 10 therefore; it is free from multicollinearity problem.

Table 2.19

Regression result of cash from operations in period t+1 to 5 on interactions of differentiation strategy and cost leadership strategy with cash from operations of respective years

| Variables | Model I | Model II | Model III |
|---|----------------|-----------------|------------------|
| Constant | | | |
| Coefficient | 0.007*** | 0.797* | 1.039* |
| S.E. | 0.003 | 0.213 | 0.227 |
| T Value | 1.953 | 3.736 | 4.566 |
| CFO_{it} | | | |
| Coefficient | 1.049* | -0.055 | -0.637*** |
| S.E. | 0.041 | 0.228 | 0.325 |
| T Value | 25.723 | -0.242 | -1.962 |
| VIF | 1.484 | 1.095 | 1.76 |
| CFO_{it}Diff_{it} | | | |
| Coefficient | 0.106** | -0.4** | -0.427* |
| S.E. | 0.046 | 0.138 | 0.166 |
| T Value | 2.277 | -2.91 | -2.575 |
| VIF | 1.166 | 1.053 | 1.026 |
| CFO_{it}CL_{it} | | | |
| Coefficient | -0.065 | -0.057 | 0.172 |
| S.E. | 0.056 | 0.225 | 0.243 |
| T Value | -1.147 | -0.252 | 0.706 |
| VIF | 1.298 | 1.143 | 1.74 |
| R square | 0.918 | 0.163 | 0.217 |
| F value | 323.995* | 3.125** | 3.235** |
| D.W. | 1.918 | 1.79 | 1.784 |
| Number of observation | 91 | 52 | 39 |
| d.f. | 87 | 48 | 35 |
| Number of Observations = 103 | | | |
| Note: * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels | | | |

In case of regression result of model first, out of three independent variables, the sign of two independent variables namely cash flow from operation to total assets of a firm i in a year t (CFO_{it}) and interaction of differentiation strategy with CFO_{it} shows a positive impact on $CFO_{i,t+1}$ and statistically significant at 1 percent and 5 percent level respectively. The sign of independent variable namely CFO_{it} with interaction with cost leadership strategy shows a negative impact on $CFO_{i,t+1}$ but it is statistically insignificant. The explanatory power of this model is reasonably high given as the R^2 is estimated at 91.87 percent.

Table 2.19 presents the regression results of multiple regression models second and third, the regression result revealed that the coefficient value of independent variables of CFO_{it} interaction with differentiation strategy are negative at 10 percent LOS but coefficient value of CFO_{it} interaction with cost leadership strategy of both i.e. second and third models are statistically insignificant. Models second and third have explained 16.3 and 21.7 percent area respectively.

Hence, this result is not clear out of differentiation and cost leadership strategy which is more beneficial to increase ratio of cash from operations to total assets.

To measure the impact of differentiation strategy, cost leadership strategy, book value per share and earning per share on market value per share of a firm i in a year t can be expressed by the following formula:

$$P_{i,t} = \alpha_0 + \beta_1 Diff_{i,t} + \beta_2 Cl_{i,t} + \beta_3 BV_{i,t} + \beta_4 EPS_{i,t} + \varepsilon_{i,t} \dots$$

It is approved that there is heteroscedasticity problem through Glejser test. Dependent and all independent variables have been divided by unstandardized predicted variables to minimize heteroscedasticity problem. After completion of remedial measure, the regression model is:

$$RemP_{i,t} = \alpha_0 + \beta_1 RemDiff_{i,t} + \beta_2 Rem CL_{i,t} + \beta_3 RemBV_{i,t} + \beta_4 RemEPS_{i,t} + \varepsilon_{i,t} \dots$$

The computed values of the regression equation for the selected enterprises are presented in table 2.20. Coefficient values of three independent variables (differentiation strategy, cost leadership strategy and book value per share) are positive and statistically significant at 1 percent but the earning per share is significant at 10

percent level. Coefficient value of cost leadership strategy is greater than differentiation strategy, which is just opposite as per prior expectation. Value of DW (1.848) is approved that it is free from auto correlation problem. The F-ratio is statistically significant at 1 percent LOS. The value of R^2 indicates the explanatory power of the model which is 94.6 percent.

Table 2.20

Regression result of market price per share on differentiation strategy, cost leadership strategy, book value per share and earning per share

| $P_{i,t}$ | $= \beta_0$ | $+ \beta_1 \text{Diff}_{i,t}$ | $+ \beta_2 \text{CL}_{i,t}$ | $+ \beta_3 \text{BV}_{i,t}$ | $+ \beta_4 \text{EPS}_{i,t}$ | $+ \varepsilon_{i,t} \dots$ |
|---|-------------|-------------------------------|-----------------------------|-----------------------------|------------------------------|-----------------------------|
| Intercept/Coefficients | 0.437* | 42.517* | 76.357* | 8.084* | 0.181*** | |
| S.E | 0.043 | 7.761 | 17.1 | 0.25 | 0.095 | |
| T | 10.095 | 5.478 | 4.465 | 32.286 | 1.909 | |
| VIF | | 1.184 | 1.171 | 1.679 | 1.586 | |
| $R^2=0.946$ $F = 436.658^*$ $D.W. = 1.848$ Number of observations, d.f. = 104,99 Note: * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels | | | | | | |

2.5 Discussion

To measure the impact of differentiation and cost leadership strategy on sustainability of financial performance, the statistical tool of factor analysis has been used to determine differentiation and cost leadership strategy. Five-year moving average data from 2000/2001 to 2011/2012 of 13 firms i.e. 10 manufacturing and 3 hotel industries were used for this study. Communalities and KMO have supported to sample adequacy i.e. 104 firm-year observations. Four variables i.e. selling, general and administrative expenses divided by sales, gross profit margin, book value of plant and equipment divided by sales, capital expenditure on property plant and equipment divided by sales are intentionally grouped by rotated component matrix in two groups.

Selling, general and administrative expenses and gross profit margin support component one and it is denoted by differentiation strategy (Banker et.al, 2006). Book value of plant and equipment divided by sales and capital expenditure on property, plant and equipment divided by sales support component two and it is denoted by cost leadership strategy (Banker et.al, 2006).

To measure the impact of differentiation and cost leadership strategy on sustainability of financial performance of organization through multiple regression analysis, return on assets and cash flow from operation to total assets is only measured due to constraints of assumption of multiple regression analysis i. e. normality, no heteroscedasticity, no multicollinearity, and no auto correlation. Dependent and all independent variables of each regression model (which is measured sustainability of financial performance in the perspective of return on assets from period 1 to 5) have been divided by unstandardized predicted variables due to heteroscedasticity problem.

Table 2.17 and 2.18 has explained controversial result in the perspective of impact of differentiation and cost leadership strategy to sustain financial performance in Nepalese enterprise through increase return on assets in future period.

Three multiple regression models have been used for measuring impact of interaction of differentiation strategy with cash flow from operation to total assets (CFO) and cost leadership strategy with CFO from period 1, 4 and 5 on cash from operations. CFO has been used as a controlled variable of each regression model of respective periods. Dependent and all independent variables have been divided by regression equation of periods 4 and 5 by respective unstandardized predicted variables due to heteroscedasticity problem. In table 2.19, there is no answer of out of two generic strategies differentiation and cost leadership which is more beneficial to increase cash flow from operation to total assets. Hence, this analysis is not an appropriate answer in the perspective of quarry of hypothesis one.

Having examined the differences in the sustainability of financial performance based on the firms' realized strategies, next analysis regarding whether capital market participants recognize these differences when valuing firms has been carried out. The analysis examines the association of the strategic variables with stock prices to evaluate whether investors incorporate information related to the sustainability of financial performance in setting prices. To do this, it utilizes a valuation model that captures the relation between current accounting information and prices and has been widely used in the accounting and finance literatures to assess the information content of variables with potential pricing implications (Ohlson, 1995).

The valuation model incorporates the relevance of accounting data in the valuation of firms by following a three-link process: (1) current earnings are useful for predicting future earnings, (2) future earnings are the indicators of the future dividend-paying ability of firms, and (3) expected future dividends are discounted to the present to infer equity value. It focuses on examining whether investors price firms incorporating the implications of the differentiation and cost leadership strategy on the sustainability of financial performance.

Correlation statistics presents low degree of inverse relationship between differentiation and cost leadership strategy separately with market value per share, book value per share and earnings per share but it is insignificant at 5 percent level. The regression equation of market value per share on differentiation strategy, cost leadership strategy, book value per share and earnings per share is approved that cost leadership strategy is better than differentiation strategy to increase market value per share. Hence, this result runs counter to hypothesis two and it is not similar with Banker and Mashruwala, *et al.*, 2006.

This study asserts that both cost leadership and differentiation strategy are appropriate to increase market value per share. Out of these, cost leadership strategy is better than differentiation to increase market value per share in Nepalese enterprises but this study does not answer how capital markets perceive and reward the strategies pursued by firms in Nepalese enterprises.

Research shows that firms successfully pursuing either a cost leadership or a differentiation strategy are better able to gain competitive advantages over other firms and accordingly achieve superior performance. Thus, if firms actually do realize superior performance based on their strategic orientation, capital markets should recognize this and place a positive value on such strategy-focused firms. The aim of this study is to empirically investigate how capital markets perceive and reward the strategies pursued by firms in Nepalese enterprises. Hence, chapter III uses Tobin's Q as a measure of capital market perception. By regressing Tobin's Q against relevant control variables and proxies for differentiation and cost leadership strategy, the next chapter evaluates the relationship between capital market perception and firm strategy.

CHAPTER III

Capital Market Perception and Firm Strategy

3.1 Introduction

Strategy is an essential part of any effective business plan. Research, posits that the pursuit of either of the generic strategies, differentiation or cost leadership, enables a firm to achieve better performance (Hambrick, 1983; Miller & Friesen, 1986). Differentiation is one of Porter's key business strategies (Reilly, 2002). When using this strategy, a company focuses its efforts on providing a unique product or service (Hyatt, 2001; Cross, 1999). Since, the product or service is unique, this strategy provides high customer loyalty (Porter, 1985; Hlavacka, *et al.*, 2001; Cross, 1999).

The key step in devising a differentiation strategy is to determine what makes a company different from a competitor's (McCracken, 2002; Reilly, 2002). Factors including market sector quality of work, the size of the firm, the image, graphical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested to differentiate a firm (McCracken, 2002; Davidson, 2001). To be effective, the message of differentiation must reach the clients (McCracken, 2002), as the customer's perceptions of the company are important (Berthoff, 2002; Troy, 2002).

Porter's another generic strategy is achieving competitive advantage by having the lowest cost in the industry (Porter, 1979, 1987, 1996; Bauer & Colgan, 2001). In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy (Malburg, 2000). The organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage (Malburg, 2000). For an effective cost leadership strategy, a firm must have a large market share (Hyatt, 2001).

A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs. Firms do not have to sacrifice revenue to be the

cost leader since high revenue is achieved through obtaining a large market share (Porter, 1979, 1987, 1996; Bauer & Colgan, 2001). Lower prices lead to higher demand and, therefore, to a larger market share (Helms, Clay & Peter, 1997). As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market (Hyatt, 2001). The leader then is somewhat insulated from industry wide price reductions (Porter, 1980; Hlavacka, *et al.*, 2001; Malburg, 2000). The cost leadership strategy does have disadvantages. It creates little customer loyalty and if a firm lowers prices too much, it may lose revenues (Cross, 1999).

Various authors have defined business strategy in the following dimensions: business strategy is integrated and is a coordinated set of commitments and actions which a company uses to gain a competitive advantage by exploiting core competencies in specific product markets. The main concept of this strategy is to choose to perform activities differently, or to perform different activities, compared to their rivals. In addition, the objective of this strategy is to build unique and strong competencies in one or more areas to gain a competitive advantage over their rivals (Slater & Olsen, 2000; Thompson & Strickl, 2003). Dess and Miller (1993) extended the concept of business strategy presented by Porter by combining multiple forms of competitive advantage, specifically integrating differentiation and overall cost strategies to achieve the highest financial and marketing performance for the organization (Wright, Kroll, Tu & Helms, 1991; Kim and Lim, 1988).

Overall cost leadership strategy aims to achieve overall cost leadership in the industry which places concentration on asset use, employee productivity, and discretionary expenses control. Examples are cost reduction from experience, tight cost and overhead control, cost minimization primary and supporting activities on firm's value chain, such as research, manufacturing, service, sale forces, and advertising (Porter, 1985; Dess, Lumpkin, & Eisner., 2007; Hitt, Ireland, & Hoskisson., 2003; Pamel, 2000). Differentiation consists of offering unique product and services in various forms, such as prestige and brand image, technology leadership, engineering design, rapid product innovation, features, customer service, and dealer network (Porter, 1985; Dess, *et al.*, 2007; Hill & Jones, 2004).

Research suggests that detection of either of the generic strategies, differentiation or cost leadership, enables a firm to achieve better performance (Hambrick, 1983; Miller & Friesen, 1986). Allen (2007) has found the lack of strategic focus to be a major reason for the downfall of several Japanese firms. Allen (2007) has also found that iconic Japanese firms such as Honda, Sony, and Nintendo “rise to global dominance by their well developed and defined corporate strategies”. He goes on to document how other Japanese companies (e.g. Mitsubishi) are using a commitment to Porter’s generic strategies as a mechanism for corporate renewal. However, to sustain such superior performance into the future, firms should build effective barriers to prevent imitation of best practices that enable such superior performance. Porter (1996, 2001) argues that cost leadership strategy is easily replicable since best practices that enhance cost efficiency can spread rapidly with modern technological innovations. Conversely, a differentiation strategy is harder to imitate since it is built on products or services that are perceived to be different from the competitors; hence leading to more sustainable performance. To the extent that the superior performance through strategic positioning of firms can be sustained into the future contemporaneous measures such as earnings or ROA do not capture this persistence. Even so, the stock markets should theoretically recognize and reward the profitability implications of the superior performance resulting from the strategy pursued by firms.

However, as noted by Narver and Slater (2000) prior literature on this subject has focused mainly on the contemporaneous effects of strategy on performance. This study examines the capital market perception of different strategies pursued by firms. Empirical data used for a sample of publicly traded firms to investigate how capital markets perceive and reward strategies pursued by firms. This study has evaluated the capital market perception using both Tobin’s Q from firms pursuing the strategies. In addition, it has also investigated the differential impact of different types of strategy (i.e. differentiation and cost leadership) on the market value of firms. Capital markets reward firms pursuing either of these strategies; however, they value firms pursuing differentiation higher than the cost leadership strategy. This reflects that in the long term sustainability of the differentiation strategy over the cost leadership strategy.

This chapter examines as to how capital markets perceive and reward the strategies pursued by firms in Nepalese listed enterprises. The rest of the chapter is organized as follows: Section 3.2 outlines previous empirical study about generic strategic practices in different service and manufacturing sectors. Section 3.3 describes data analysis methodology. The results are presented in section 3.4. Section 3.5 provides a discussion on the overall results.

3.2 Review of the major literature

The empirical evidence on linking strategic practices and organizational performance has been organized into five parts.

- I. Review of major studies during 1980s
- II. Review of major studies during 1990s
- III. Review of major studies during 2000s
- IV. Review of major studies during 2010s
- V. Review of major studies in Nepalese context.

I. Review of major studies during 1980s

The brief summary with their findings are as follows.

Table 3.1
Major studies during 1980s

| Study | Major findings |
|-------------------------|---|
| Zeithaml and Fry (1984) | Superstars are more efficient in their product use of R & D, or perhaps that they benefitted from R &D of earlier market entrants. |
| Govindarajan (1988) | High managerial internal locus of control and low emphasis on meeting a budget are associated with high performance in SBUs employing a strategy of differentiation. |
| Segev (1989) | Similarities and differences between the two typologies which are Porter (1980) and Miles and Snow (1978) |
| Boeker (1989) | Firms in which a low-cost strategy is dominant and in which the manufacturing and production function has relatively high influence will exhibit less change in the low-cost strategy from founding than firms in which those conditions are lacking. |

A study on contextual and strategic differences among mature businesses in four dynamic performance situations which were business referred to “superstars” have registered substantial increase in both market share and profitability, "harvesters", on the other hand, have increased profits and loss market share. "Builders," have increased market share, but face eroding profitability. "Decliners," suffer losses in both market share and profitability. It has been found that in perspective of research and development expenditure (R&D) variable new products represented a significantly higher percentage of sales for superstars than for harvesters, builders, and decliners. Superstars also introduced a significantly higher percentage of new products relative to competitors than did harvesters and decliners. These results suggest that superstars were more efficient in their use of product R&D, or perhaps that they benefitted from the R&D of earlier market entrants (Zeithaml & Fry, 1984).

Similarly, a study on contingency approach to strategy implementation at the business-unit level in the perspective of integrating administrative mechanisms with strategy has been examined by Govindarajan (1988). This study has focused on what is perhaps the most critical aspect of strategy implementation in large, multi-business organizations: recognizing that different business units within the same corporation often pursue different strategies and at the administrative mechanisms that corporate headquarters use to manage those businesses should differ. Data for the study have been collected from strategic business unit (SBU) general managers and their superiors at 24 firms on the Fortune 500 list (sales range: \$450 million to \$37 billion). The firms represent both growing and mature industries, including the automotive, petroleum, food products, chemical production, aerospace, electronics, consumer durables, clothing manufacture and retail, and various consumer nondurable industries. The study explains that for SBUs employing a strategy of differentiation, deemphasizing budgetary goals during performance evaluations is likely to be associated with high SBU effectiveness. It also clarifies that SBUs employing a strategy of differentiation, greater internal locus of control on the part of an SBU general manager is likely to be associated with high SBU effectiveness. For SBUs employing a strategy of low cost, greater external locus of control on the part of an SBU general manager is likely to be associated with high SBU effectiveness.

A systematic comparative analysis and synthesis of two business level strategies has been examined by Segev (1989). The study places spotlight on two important business-level strategic typologies which have been systematically evaluated, analyzed and compared to Porter's overall cost leadership, differentiation, focus, and stuck in the middle i.e. generic competitive strategies, and Miles and Snow's defender, prospector, analyzer, and reactor types of organizational adaptation. On the basis of strategic theory, and following a pilot study, 31 strategic variables have been evaluated by judges on a seven-point maximum-minimum scale, for each strategy, within its typology. Analysis of the matrix of relative proximities among the strategic profiles of the two business-level strategic typologies indicates that Miles and Snow's defender is closest to Porter's cost-focus; prospector is closest to differentiation; analyzer to differentiation and cost-focus and the reactor is stuck in the middle. Inspection of the horizontal rows reveals that Porter's cost-leader is closest to Miles and Snow's analyzer and defender; cost-focus to analyzer; differentiation-focus to both prospector and analyzer; and the stuck in the middle is clearly a reactor.

A study on strategic change in the perspective of the effects of founding and history has been conducted by Boeker (1989). The aim of this study was to identify conditions under which strategic change occurs in organizations. Data have been collected from three sources: (1) personal interviews with top managers of the organizations, typically including the president or chief executive officer; (2) information collected by and made available through three of the four largest market research firms serving the semiconductor industry; and (3) information from articles in the electronics and business press. The findings reveal the manufacturing and production influence on the maintenance of a low-cost strategy, indicating that firms with both a dominant initial strategy and patterns of subunit influence that are aligned with that strategy show less change in strategic approach than firms lacking that configuration. The ownership of an organization does not significantly influence the association between low-cost and second-mover initial and current strategies.

II. Review of major studies during 1990s

Research work undertaken in between 1981-1990, is mentioned in the table 3.2.

Table 3.2
Major studies during 1990s

| Study | Major findings |
|---------------------------------------|---|
| O'Farrell, Hitchnes and Moffat (1992) | Firms pursuing differentiation strategies export significantly more than companies of similar size, age and service type implementing a stuck-in-the middle policy |
| Parker and Helms (1992) | In declining industry, firms in the two countries pursue similar strategies and that superior performance is associated with mixed and reactive as well as single generic strategies. |
| Powell (1992) | By focusing on industry and competitive strategy variables, contemporary industrial organization and strategy research has understated the role of organizational factors in producing sustainable competitive advantage. |
| Davis and Schull (1993) | Sharing of resources and programs among business units positively influences performance in low-cost firms and sharing did not affect the performance of firms in differentiation-based strategic clusters |
| Marlin, Lamont, and Hoffman, (1994) | In differentiated and maximum choice situations, most of the hospitals pursued a differentiation strategy. |
| Dowling and McGee (1994) | New ventures pursuing broad cost leadership strategies were more successful. |
| Kling and Smith (1995) | Five airlines appear to be successfully following one of the three generic strategies and therefore enjoy better competitive positions in the industry and superior profitability |
| Lassar and Kerr (1996) | Distribution intensity for cost leaders and differentiators is high and significantly different. |
| Kaymak (1998) | Domestic firms possess more of the low cost and/or focus strategies than MNEs (multinational enterprises) are not pursuing a differentiation strategy relative to domestic firms. |

O'Farrell, Hitchnes, and Moffat (1992) have analyzed generic strategies and performance in business service firms. This study has been undertaken on data from a sample of firms in Scotland and the South- East of England drawn from the market research, graphic design, product design, advertising and marketing, and management consultancy industries. The focus of the analysis is to determine whether firms pursuing a clear-cut strategy (focus differentiation, differentiation or low cost leadership) achieved a superior performance to firms which do not (i.e. were stuck-in-the-middle, in terms of Porter's model). According to the conclusion, 5 firms being categorised as adopting a cost focus strategy and only 3 competing on the basis of cost leadership. 28 businesses have been implemented to have a focus differentiation strategy, 27 were competing on the basis of differentiation and 20 were 'stuck in the

middle', not competing on the basis of low cost or specializing in terms of either services offered or market segments targeted. Hence, only a minority of companies in the sample have been found to have tried to compete on costs; most were attempting to differentiate or were stuck in the middle. Similarly, firms pursuing differentiation strategies have been found to export significantly more than companies of similar size, age and service type implementing a stuck-in-the-middle policy. The two groups of firms generate similar proportions of repeat business; while the differentiators achieved an average net profit on turnover of 11.1 percent compared with 10.3 percent.

Generic strategies and firm performance in a declining industry has been examined by Parker and Helms (1992). This study highlights the three strategic perspectives either pursue a single generic strategy, pursue a combination of cost and differentiation or follow a reactive strategy with a sample of decline UK and USA decline textile mill product firms. Decline presents a challenge because the phenomenon of industry decline goes by various names. Specifically, sustained industry losses result in limited opportunities for competitive advantage among surviving firms. The findings reveal that combined strategies of either differentiation/cost or focus/cost do occur and are associated with higher performance in this industry, in the perspective of strategic groups and performance. Financial performance is significantly higher when firms pursue more cost activities, but growth is significantly greater when scores on differentiation activities are high in the perspective of generic strategies and performance.

A study on alignment as competitive advantage has been examined by Powell (1992). This study critically looks at the financial performance consequences of organizational alignments in context with the effects of industry, market share, and strategy. Financial performance has been measured by three survey questions concerning profitability, sales growth and financial performance over the most recent three fiscal years. The findings disclose that low cost and market niche strategies both correlate significantly with profitability. On the other hand, it also suggests that the emphasis placed on industry and strategic positioning, in the popular Porter framework and elsewhere, may be misplaced, understating the importance of organization-based competitive advantages.

Davis and Schull (1993) have examined on addressing the contingent effects of business unit strategic orientation on relationship between organizational context and business unit performance. This study critically looks at the moderate role of strategic orientation on relationships between organizational context variables and measures of business unit performance. Study, which has used cluster analysis and the regression

analysis tools to analyse the data collected from paper and pulp manufacturing industry through internet at the headquarters and plant sites of twelve companies, and also from questionnaires mailed to chief executive officers (or their designated representatives) of 1382 business units of American pulp and paper industry, reveals that the sharing of resources and programmes among business units positively influences performance in low-cost firms and that sharing does not affect the performance of firms in differentiation-based strategic clusters. According to its findings, Sharing of resources and programs among business units positively influences performance in low-cost firms and sharing did not affect the performance of firms in differentiation-based strategic clusters.

Marlin, Lamont, and Hoffman (1994) critically look at examined on choice situation, strategy and performance reexamination. This study examines strategy and performance relationships between and within situations of varying strategic choice and environmental determinism. The examination focussed on 147 Florida hospitals in 1988 classifies each hospital strategy as differentiation, cost leadership or muddling. The classifications are based on three measures of differentiation and three indicators of cost orientation. The differentiation indices have been technological sophistication of service offerings, breadth of service offerings, and number of rare service offerings. Low cost orientation has been found to be based on three measures: total expenses divided by the average number of occupied beds for each hospital, cost adjusted per patient day and salary adjusted per patient day. The findings reveal that in differentiated and maximum choice situations, most of the hospitals in this sample pursue a differentiation strategy. Except for the incremental choice situation, differentiators within each choice situation are higher performers than cost leaders, which are higher performers than muddlers.

Likewise, a study on the relationships between business and technology strategies and new venture performance in an industry characterized by architectural innovation, data were collected from the Initial Public Offering (IPO) documents of a sample of 52 new ventures in the telecommunications equipment industry. The result suggests that new ventures attempting to compete with differentiation strategies are less successful than firms pursuing cost leadership strategies. In terms of strategic advantage, it appears that firms choosing cost leadership strategic weapons are significantly more successful in terms of sales growth. Investments in innovation in terms of relative research and development expenditures are also related to higher performance. Finally, significant interaction effects between investments in innovation, and competitive strategies and performance are found (Dowling & McGee, 1994).

Kling and Smith (1995) have identified strategic group in the U.S. airline industry from the perspective of application of Porter's model. This study identifies strategic groups among the nine major U.S. passenger airlines by utilizing the framework of Michale Porter's generic strategy typology. Standardized cost data and the use of the National Institute for Aviation Research have allowed strategic groups to be accurately determined through the use of a cost/quality differentiation scatter-plot diagram. Profitability analysis largely validates the use of the Porter model to identify strategic groups in the U.S. airline industry. According to the findings, five airlines appear to be successfully following one of the three generic strategies and therefore, enjoy better competitive positions in the industry and superior profitability, and a group of three airlines is clearly identified as lacking in strategic focus and suffers from poor financial performance.

A study on influence of competitive strategy on the relationship between suppliers and their distribution network, data have been collected within the stereo speaker segment of the consumer electronic industry in the USA. Cluster analysis has been used to show distinct differences in channel management and structure for the three generic strategies of cost leadership, differentiation and focus. Its findings recommended that cost leadership utilizes high intensive distribution, differentiator utilizes moderately and focus manufactures utilize low distribution intensity. Distribution intensity refers to the number of distributors used by a manufacturer with in a given trade area (Lassar & Kerr 1996).

Additionally, a study on Kaymak (1998) critically investigates on domestic firms which exhibit higher levels of the focus strategy than multinational enterprises (MNEs). It explains that domestic firms have significantly greater low cost strategy than MNEs do. Domestic firms focused on low cost strategies do exhibit higher levels of performance but a statistically significant difference is not detected. MNEs showing score high on low cost also exhibit more of the differentiation strategy. MNEs do not follow low cost strategy and exhibit similar differentiation strategies relative to domestic firms.

III. Review of major studies during 2000s

The major literature on impact of strategic choice out of differentiation and cost leadership and its impact on organizational performance have been shown in table 3.3. The key studies in this period were firm strategy, differentiation strategy, cost leadership strategy, capital market perception, capital markets and management strategy including Miles and Snow typology. The stuis in different competitive environments in different size in different enterprizes in manufacturing and sevice sector of different nations.

Table 3.3
Major studies during 2000s.

| Study | Major findings |
|--|---|
| Kathuria and Porth (2003) | Manufacturing units pursuing dissimilar strategies are led by manufacturing managers with dissimilar attributes. |
| Hibbets, Albright, and Funk, (2003) | Product differentiations are most likely to implement target costing confrontational strategies. |
| Spanos, Zaralis, and Lioukas (2004) | Hybrid strategies are clearly preferable compare to pure ones and generic strategy dimensions are included in the strategy mix, the more profitable the strategy is lower cost. |
| Koo, Koh, and Nam (2004) | Porter's competitive strategies are relevant to electronic markets. |
| Auzair and Langfield-Smith (2005) | Firms pursuing a cost leadership strategy place greater emphasis on a more bureaucratic management control systems (MCS) than firms pursuing a differentiation strategy |
| Bloodgood (2006) | Generic strategies of these ventures affected internationalization and financial performance differently. |
| Li, Qian, and Ng (2006) | Firms in developing countries start with cost leadership-strategies in labor intensive industries and then develop differentiation through systematic learning and improvement. |
| Insch and Steensma (2006) | No relationship is found between low cost producers and competitors. |
| Wang, Zantow, Lai, and Wang (2006) | Companies pursuing cost leadership are shifting towards differentiation strategy to cope with the intense competition faced in mainland china's immense logistics market. |
| Prajogo, Laosirihongthong, Sohal, and Boon-itt(2007) | Differentiation strategy is shown to be the strongest predictors for both product and process innovation across both countries. |
| Marlin, Ketchen, and Lamont (2007) | In suboptimal equifinal situations, most firms pursue low cost or differentiation strategies best-cost strategies while few firms pursue best cost strategy or are muddlers. |
| Acquaah (2007) | The impact of social capital on organizational performance differs between firms that pursue the different competitive strategies (low cost, differentiation combination of low cost and differentiation) and those who do not pursue those strategies. |
| Mayfield, Mayfield, and Stephens (2007) | A significant link between strategic type and longevity. Organizational strategy accounts for 35 percent of the variance in longevity. Companies with a defender strategy has the greatest longevity, and prospectors has the shortest. |
| Huo, Selen, Yeung, and Zhao (2008) | Low cost operations emphasis will lead to worsen financial performance. |
| Liu and Barrar (2008) | The only caveat (warning) is that a cost leadership strategy is less successful. |
| Gomes, yasin, and lisoba (2009) | Portuguese small and medium enterprises manufacturing organizations are following strategic orientations. |
| Leitner and Guldenberg (2010) | Firms that follow a combination strategy outperform companies with no generic strategy in terms of profitability and growth and achieve higher profitability than companies that follow a differentiation strategy. |

A study on strategy-managerial characteristics alignment and performance in a manufacturing perspective based on a sample of 196 managers from 98 companies has been conducted by Kathuria and Porth (2003). Its findings reveal that companies should select and place manufacturing managers with different characteristics depending upon their strategic orientation. Manufacturing managers with higher education and shorter

job and organizational tenures seem to perform better. On the other hand, the managerial profile that seems to fit a low cost orientation includes managers with higher job and organizational tenures and lower levels of education. Another implication for senior managers is the need to consider reassigning functional managers when changing the strategic orientation of manufacturing units within a corporation.

Relationship between competitive environment and strategy for target costing (TC) firms has been examined by Hibbets, Albright, and Funk (2003). Of the twelve firms interviewed (none of which were in the same industry or were direct competitors), eight have been identified as product differentiators, one as a cost leader, and three as a pursuing a confrontational strategy. This provides preliminary evidence that product differentiators are more likely to adopt TC than firms with other choices of competitive strategy. Through interviews conducted with managers, this study investigates the relationship between competitive environment and strategy for TC firms. Preliminary evidence, through interviews conducted with managers of twelve U.S. and German-based TC adopting companies, shows that product differentiators are more likely to be implemented TC than firms pursuing other competitive strategies (i.e. cost leadership or confrontational strategies).

Spanos, Zaralis, and Lioukas (2004) have conducted a study, by utilizing census data of Greek manufacturing industry on strategy and its effects on profitability. This study critically looks at three generic strategy dimensions: low cost, marketing and technology based differentiation. The dimension of low cost has been measured through through employee productivity i.e. value added per employee. The marketing dimension has been gauged through the ratio of advertising expenditure to revenues. The ratio of investment in new equipment to revenues has been used to express emphasis on technology differentiation. According to the findings, hybrid strategies are clearly preferable compared to pure ones and the inclusion of generic strategy dimensions in the strategy mix results into greater profitability through lower cost.

Similarly, a study on examination of Porter's competitive strategies in electronic virtual markets in a comparison of two on-line business models examines the connection between four competitive strategies (cost leadership, market differentiation, innovation differentiation, market focus) in business performance of electronic markets. A survey of 123 firms in South Korea has found that click and mortar firms tend to favor

strategies based on differentiation more than wholly on-line firms, but that the two groups do not differ significantly with regard to strategies based on cost leadership and market focus. Result of the regression analysis has been mixed. For on-line firms, both differentiation strategies, market differentiation and innovation differentiation, have been found to be good performance predictors, but cost leadership and market focus have not been. On the other hand, the market focus strategy turns out to be the only effective performance predictor for click-and-mortar firms (Koo, Koh, & Nam, 2004).

Auzair and Langfield-Smith (2005) have studied on the effect of service process type, business strategy and life cycle stage on bureaucratic management control systems (MCS) in service organizations. This study adopts a contingency approach and uses empirical analysis to identify the influence of specific organizational variables on the design of MCS in service organizations across several industries. This study falls back on the survey method to investigate the influence of several contingent variables on the design of MCS in service organizations. MCS is conceptualized in terms of five dimensions: action/results controls, formal/informal controls, tight/loose controls, restricted/flexible controls, and impersonal/interpersonal controls to form a composite measure of the degree of MCS bureaucracy. The framework used in this study recognizes that the service process type, business strategy, and stage in the organizational life cycle influence the choice of MCS design within an organization. The t test and multiple regression analysis of the data collected through the administering of questionnaires to financial controllers operating in Australia concludes that more bureaucratic form of MCS are found in cost leaders in comparison to differentiation. As business strategy has been measured as two separate scales of cost leadership and differentiation, the sample consists of firms that are (1) high on both strategies, (2) low on both strategies, and (3) low on one strategy, but high on the other. A median split has been undertaken to separate high cost leaders from low cost leaders, and high differentiators from low differentiators. Cost leaders have been defined as those firms placing high emphasis on a cost leadership strategy but low emphasis on differentiation. Differentiators have been those firms that place a high emphasis on a differentiation strategy and a low emphasis on cost leadership.

Bloodgood (2006) has investigated into how early internationalization and the use of generic strategies by new ventures affect the performance and internationalization

efforts of those ventures as they move beyond the period of initiation. A total of 37 venture capital backed new ventures within the USA from 1991 to 1999 has been studied. Its findings suggest that a cost leadership strategy is not found to assist a venture in internationalizing its operations during the period after initiation. A product differentiation strategy is found to be associated with an increase in, and the total number of, regions of the world in which a venture operated. A cost leadership strategy is found to increase both sales growth and financial performance of the venture in the period after initiation.

An application of metric conjoint analysis for the evaluation of top managers' individual strategic decision making processes has been examined by Li, Qian, and Ng (2006). It analyzes the capability sequencing in the perspective of strategies by township and village enterprises in China. It focused on capturing competitive advantages through self-administered questionnaire survey approach, involving a sample of managing directors of township and village in the Fujian province China. Its findings suggest that firms in developing countries start with cost leadership-strategies in labor intensive industries and then develop differentiation through systematic learning and improvement. Systematic learning through partnerships may not incur high costs in developing countries, but it also may not create high short-term returns.

A study on the relationship between firm strategic profile and alliance partners' characteristics has been conducted by Inch and Steensma (2006). In this study, the independent variables measure the firm's strategic orientation, and the dependent variables measure alliance characteristics. Its findings explain that no relationship is found between low cost producers and competitors. Low cost producers focus on suppliers. Low cost producers (LCPs) expands internationally. It is more likely to develop close relations with the host government. There is a negative relationship between a first-mover strategy and a focus on second movers (imitators) and low-cost producers. The first and third variates also indicate that low-cost producers tend to align with other low-cost producers. Second movers (imitators) focus on other second movers and have no relationship with either first movers or LCPs.

Likewise, a study on strategic postures of third-party logistics providers in mainland China has focused on four logistic pure cost, pure differentiation, cost as well as differentiation, and no advantage. The study asks survey respondents to indicate their

business performance compared with their competitors. The business performance of different strategic types is measured on the basis of overall financial performance: average growth in annual sales, average growth rate in market share, percentage growth in return on assets, percentage growth in profit on sales over the past two years. It is suggested that the highest level of business performance was indicated for the companies that successfully pursue both differentiation and cost. The pure differentiation performs higher than pure cost companies. The companies that are not seen as pursuing either of the strategies are the poorest performers. There is no significant difference between performance of pure a cost companies and neither follows cost nor follows differentiation (Wang, Zantow, Lai, & Wang, 2006).

In the comparative study on the impact of manufacturing strategies and resources on innovation performance in two newly industrialized countries in the South East Asian region, Thailand and Vietnam, quantitative approach has been employed. The survey data have been drawn from 95 Thai and 44 Vietnamese middle or senior managers in manufacturing firms. Its findings explain that differentiation shows the strongest correlation with innovation performance, followed by technology and search and development expenditure (R&D), whilst cost leadership and people management shows relatively low correlations. These results are consistent between the two countries, and this indicates that structural resources played a more significant role in determining innovation performance than do infrastructural resources (Prajogo, Laosirihongthong, Sohal, & Boon-itt, 2007).

A study on equifinality and the strategic group's performance relationship has been examined by Marlin, Ketchen, and Lamont (2007). Strategic groups have been clusters or sets of firms that pursue similar competitive approaches within an industry. The study sample consists of all general, short-term, acute-care hospitals in a single southern state for the years 1983, 1988, and 1993. The sample is limited to U.S. hospitals in a single state due to the dramatic differences in governmental regulations between states. Archival data have been obtained from state agencies. An objective classification procedure has been used to classify the groups from each year into one of four strategy categories based on Porter's (1980) typology which were differentiation, low cost, best-cost, and muddler. Its findings reveal that in suboptimal equifinal

situations, most firms pursue low cost or differentiation strategies, while few firms pursue best cost strategy.

Acquaah (2007) has investigated into the impact of managerial social capital developed from personal and social networking relationships with top managers of other firms, government officials, and community leaders on organizational performance. This study examines the extent to which the value of social capital is contingent on organizational strategic orientation. The data for this study have been collected from senior executives- chief executive officers (CEOs) or managing directors (MDs) and their deputies, and heads of the finance/accounting function of manufacturing and service firms operating in Ghana. The sample consists of the 200 large-and medium-sized companies were selected from the Ghana Business Directory (2001) and the membership directory of the Association of Ghana Industries. The study asks the respondents to rate their firms on five measures of performance (growth of sales and revenue, growth of net income or profits, growth in productivity, return on assets, and return on sales) relative to the major competitors in their industry in the year 2001 and 2002. The performance items have been measured on a scale ranging from (1) 'much worse' to (7) 'much better'.

In spite of these, the respondents have been asked to assess the extent to which top management has used personal and social networking relationships, and how such relationships have benefited their company through: (a) access to information that could be used to the firm's advantage (b) access to valuable resources and (c) acquisition and exploitation of knowledge from 1998 to 2000. The assessments have been made using a seven-point ranging from (1) 'very little' to (7) 'very extensive.' The social capital measure for each of the three variables is then developed. Its findings reveal that the impact of social capital on organizational performance differs between firms that pursue the different competitive strategies (low cost, differentiation combination of low cost and differentiation) and those who do not pursue those strategies.

A study on the relationship of generic strategy typing and organizational longevity a preliminary analysis in the comic book industry using the Miles and Snow typology has been conducted by Mayfield, Mayfield, and Stephens (2007). It analyzes the relationship between an organization's generic strategy and its longevity. This study

attempts to include all major USA comic book companies that have started operations since the beginning of the twentieth century. The specific Miles and Snow classifications are designated as the independent variables, with organizational longevity serving as the dependent variable. Initial testing shows that the data violated the equality of variance assumption for ANOVA.

The ANOVA results shows a significant relationship between organizational strategy and longevity with a p value of less than 0.001. This test using the log transformed data is significant at the 0.001 level and strategic type accounted for slightly more variance (35.8 percent) of the log transformed longevity variable. Follow up tests also shows that results are consistent with the hypothesized relationships. Organizations with a defender strategy has significantly greater longevity than companies that employs other types of strategies. As predicted, organizations with a reactor strategy fare the worst among the four types. Analyzer and prospector organizations have longevities that are consistently lower than defender type organizations. Conversely, analyzers and prospectors fare better than companies with a reactor strategy. In addition, analysis shows no significant difference between analyzer and prospector longevity.

Similarly, a study on understanding drivers of performance in the third party logistics (3PL) industry in Hong Kong has been conducted by Huo, Selen, Yeung, and Zhao (2008). The sampling tool for this study comprised all members of the Hong Kong Logistics Association (HKLA), with Hong Kong as the population of interest. This study reveals that a low cost emphasis significantly influences on cost performance whereas differentiation significantly influenced on service performance. Differentiation enhances financial performance through the improvement of service performance. However, differentiation has no significant direct influence on financial performance. Low cost emphasis has a negative influence on financial performance. The negative effect on financial performance of pursuing a pure low cost emphasis prompts many 3PL providers to seek for differentiation order winners. The results also indicate that functional involvement significantly influences a differentiation emphasis and service performance, but has no significant influence on low cost emphasis or cost performance.

Likewise, a study on performance implications of strategy-technology connections in the perspective of an empirical examination has been conducted by Liu and Barrar

(2008). After a survey of 355 UK manufacturing companies using the new computer-based technology for the first time, the study comes to the conclusion that automation technology has been adopted to pursue cost leadership and this indicates a kind of integration. The only caveat is that a cost leadership strategy is less successful. Companies with strategy-technology integration shows better financial and operational performance. Strategies of technology leadership and market orientation are also associated with enhanced financial performance.

Benchmarking competitive methods and strategic choices of Portuguese small and medium enterprises (SMEs) have been examined by Gomes, Yasin, and Lisoba (2009). The study focuses on 'analyze and bench mark the strategic approaches.' After the study of cross-sectional sample of 68 Portuguese manufacturing organizations, it explains that the hybrid generic strategies tend to emphasize competitive methods almost equally but it is difficult to establish clear strategic orientations. Perhaps, this hybrid strategic orientation is dictated by the markets in which they are competing. In this context, benchmarking the strategic choices of successful European firms may help Portuguese firms validate and modify their strategic choices.

Generic strategies and firm performance in small and medium enterprises (SMEs) from the perspective of a longitudinal study of Austrian SMEs has been conducted by Leitner and Guldenberg (2010). The data used to test the study's hypotheses have been taken from a longitudinal study of Austrian SMEs with 20–500 employees. This study measures strategic behavior by three dimensions which were cost-efficiency, differentiation by quality and differentiation by innovation to classified generic strategies. Based on these three different strategies, the study constructs the combination strategy by categorizing those companies that have combined cost-efficiency and differentiation by quality or product innovation (equivalent to calculating an interaction term). Firms that have changed strategy (e.g., followed a cost-efficiency strategy in 1995 and a combination strategy in 2003, or have only followed a generic strategy in one period) have been categorized as 'strategy changed'. Companies which have been unable to identify a generic strategy in either period have been classified as having "no generic strategy". Three performance indicators have been used in the study for both time periods, namely average profitability, turnover growth and employment growth.

An initial analysis of the strategies followed by the participating firms reveals the significance of the different generic strategies. Overall, the most common strategy has been

the pure differentiation strategy, pursued over the entire period by 34 firms. In total, 23 of the firms follow a combination strategy, combining cost-efficiency with quality differentiation and product innovation respectively. Only a minority of firms (13) follows a pure cost-efficiency strategy in both periods. The findings reveal that a combination strategy positively influences all three performance indicators profitability, employment growth and turnover growth. SMEs pursuing a combination strategy will achieve greater financial performance and growth than those with no strategy. SMEs that persistently follow a cost-efficiency or differentiation strategy equally performed well, SMEs that pursue a combination strategy achieved equal or greater financial performance than SMEs with cost-efficiency or differentiation strategies.

IV. Review of major studies during 2010s

The summary of their research pointed out the following findings.

Table 3.4
Major studies during 2010s

| Study | Major findings |
|--|--|
| Castellanos and Martin (2011) | The companies that effect a differentiation strategy invest more money in training (an average of 3.5 percent of their total sales) than those which adopt a cost leader strategy (1.3 percent) |
| Parnell (2011) | The low cost-differentiation combination strategy is associated with high performance in strategic groups whose businesses possess strong management and technology capabilities. |
| Li and Ling (2012) | Profitable Chinese architectural, engineering and construction firms are more likely to adopt practices that differentiate them from competitors instead of pursuing a low-cost strategy or focus strategy |
| Parnell, Lester, Long, and Koseoglu (2012) | The combination strategy-performance linkage has been supported in Turkey and the USA. In China, the highest performing strategic group has emphasized a focus orientation accompanied by neither cost leadership nor differentiation, and has the lowest performing group was comprised of low cost businesses. |
| Asdemir, Fernando, and Tripathy (2013) | Capital markets place a higher value on firms pursuing a differentiation strategy compared to a cost leadership strategy |

Castellanos and Martin (2011) have studied on training as a source of competitive advantage: performance impact and the role of firm strategy, the Spanish case. Their study analyzes the existing relationship between training and business strategies. The object population of this study is made up of Spanish companies with more than 50 employees, since medium-sized companies do not tend to have a formalized unit with which to manage HR. Of the total number of companies, limited ones have only

excluded public administration, defense, education and health. These companies think that the training processes in these activities are subject to different criteria to those of the remaining sectors. The information has been gathered through a postal questionnaires addressed to the person in charge of the company's HR department, or failing this, to the managing director. The collection of the questionnaires, which has elicited a total of 118 valid responses, represents a response rate of 20.6 percent. According to its findings, it is indicated that differences exist between them, which is to say that according to the companies in the sample, the companies that effect a differentiation strategy invest more money in training (an average of 3.5percent of their total sales) than those which adopt a cost leader strategy (1.3 percent).

The study on strategic capabilities, competitive strategy, and performance among retailers in Argentina, Peru and the United States has been made by Parnell (2011). The assesses the influence of strategic capabilities on the business strategy-performance relationship among retail businesses in Argentina, Peru, and the USA. The findings suggest that the links between cost leadership and performance in Argentina, and between focus and performance in Peru are also positive and significant. In the USA, businesses in the cost leadership cluster report management capability at the industry norm and perform poorly. The low cost-differentiation combination strategy is associated with high performance in strategic groups whose businesses possess strong management and technology capabilities.

Li and Ling (2012) has examined the critical strategies for Chinese architectural, engineering and construction firms in achieving profitability. The purpose of this study is to investigate how architectural, engineering and construction (A/E/C) firms headquartered in mainland China (Chinese A/E/C firms) can achieve profitability; specifically, to uncover the critical strategies and practices adopted by Chinese A/E/C firms to achieve profitability using Porter's generic competitive strategies, Sun Tzu's Art of War, and the networking approach. Data have been collected through structured questionnaire by mail and face to face interviews. The population comprised all A/E/C firms head quarteres in China. Samples have been randomly drawn from the China Construction Industry Association's database. Stratified sampling has been adopted to select only firms that operated in Shanghai or Beijing. Data have been collected from senior management of Chinese A/E/C firms in Beijing and Shanghai. Data have been

analyzed using the SPSS software. The findings suggest that among the three generic competitive strategies (cost leadership, differentiation and focus); differentiation strategy is the one that would help firms to survive economic turbulence.

Additionally, a study on how environmental uncertainty affects the link between business strategy and performance in small and medium enterprises (SMEs) as evidenced from China, Turkey, and the USA has been conducted by Parnell, Lester, Long, and Koseoglu (2012). To accommodate the manufacturing firms included in each country's sample, organizations with 250 or fewer employees have been classified as SMEs in usable samples of 94, 383, and 192 for China, Turkey, and the US respectively. Businesses in each nation have been suggested to cluster analyses (Ward's method) along the individual cost, focus, and differentiation items to generate strategic groups. The findings disclose that factor results and alpha scores from each of the three nations suggest that the basic concepts of cost leadership, differentiation, and focus are universal. Cluster results indicate that how these strategic dimensions are conceptualized into a coherent approach differs markedly across nations. The combination strategy-performance linkage has been supported in Turkey and the USA. In China, the highest performing strategic group has emphasized a focus orientation accompanied by neither cost leadership nor differentiation, and the lowest performing group is comprised of low cost businesses.

Asdemir, Fernando, and Tripathy (2013) have studied on capital market perception of firm strategy. The aim of this study is to empirically investigate how capital markets perceive and reward the strategies pursued by firms. Compustat data files and stock market returns from CRSP for the period 1989-2009 have been covered to measure strategy and performance variables. In this study, 28,582 firm year and 4,351 unique firms have been included after factor analysis, three variables: selling, general and administrative expenses divided by sales, research and development expenditure divided by sales and sales divided by cost of goods sold were supported to differentiation strategy and other three variables: sales divided by capital expenditure, sales divided by book value of plant and equipment and total number of employees divided by total assets have been supported cost leadership strategy.

Capital market perception has been measured in two ways: Tobins Q and abnormal market returns. This study recommends that market showed place a positive value on

firms successfully pursuing either a cost leadership or a differentiation strategy; moreover markets showed place a higher value on firms pursuing a differentiation strategy compared to a cost leadership strategy.

V. Review of major studies in Nepalese context

The studies undertaken in Nepalese context highlights the following findings

Table 3.5
Major Studies undertaken in Nepalese context

| Study | Major findings |
|-------------------------|---|
| Shrestha (2001) | Product pricing has not been appropriate; customers have low purchasing power and want for cheaper products, hence, strategies must address this situation. |
| Khanal (2003) | Strategic influence the performance variables like access to market, building image and market share, generating sales growth and better utilization of resources and improving productivity. |
| Manandhar (2005) | Strategic management affected positively to performance variables and lack of strategic actions will lead to inertia ultimately which may prove to be a cause of closure of the enterprise |
| Thapa (2013) | Performance differences between commercial banks employing different generic strategies and differences are statistically significant. |

Marketing strategies in textile industry of Nepal has been analyzed by Shrestha (2001). The objective of this study is to evaluate the marketing practices and strategies being followed by Nepalese textile industries. This study is based on survey and analytical designs to attain defined objectives. The study is confined to textile industries of spinning and weaving category. There are 134 textile industries of spinning and weaving category. Out of 134 textile industries, 44 have been selected. Both primary and secondary data have been used for this study. Primary data have been collected through questionnaires. Secondary data have been collected from official records, publications, annual reports, economic surveys, journals and magazines and both published and unpublished books/reports. The findings explain that the enterprises have been found to be engaged in the evaluation of the strategies and policies, which are in general rated not very satisfactory. This shows that these are weakness in strategy formulation. Therefore, the total strategy formulation exercises are lacking. It appears to be inefficient and not transparent. Market competition is strong but strategy does not appear to be capable enough to meet the situation. It reveals that the pricing strategy may not be appropriate as per the market situation.

The enterprises have concentrated or given emphasis on cost only. The enterprises have been found to be higher price new products. Moderate price is charged for established products and low pricing for declining products. Customers are reported to be financially handicapped. It shows that product pricing has not been appropriate. Customers have low purchasing power and want for cheaper products. Hence, strategies must address this situation.

A study on pricing strategy in Nepalese manufacturing corporations has been examined by Khanal (2003). The study focuses on the impact of pricing upon overall operations, present pricing policies and strategies of Nepalese manufacturing corporations. It also places the spotlight on the manufacturing public corporations (MPC) of Nepal. During the study period, there were 13 MPCs out of 43 public corporations in Nepal. Out of 13 MPCs, 7 have been selected as samples. Primary and secondary data have been used for this study. Primary data have been collected from Government, employees, shareholders, creditors, debtor's consumers, general public and agencies by way of questionnaires, interviews, visits and opinion survey. The source of secondary data in this study have been publications and reports of corporations of public, private and other publications such as reports, books and libraries, newspapers, journal research papers, magazines, bulletins, pamphlets statements were the sources of this study. Central bureaus of statistics, ministry of finance, various ministries, trade promotion center Nepal planning commission are other institutions from where necessary secondary data have been collected. Statistical methods and techniques such as mean, median, mode and other mathematical and statistical tools formulae and equations have been applied for the purpose of interpretation and drawing conclusion. Co-efficient of correlations, regression analysis and standard deviation have used in this study. The findings disclose that most of the MPCs have been found adopting "cost oriented pricing method" in practice. Besides, they also follow discriminating pricing method based on regions, consumers, capacity and quality of the product. This study recommends that strategies should be developed tactfully effectively and competitively to win the strategic battle of pricing.

A study on strategic management in Nepalese enterprises has been examined by Manadhar (2005). The basic objective of this study is to identify the process of strategic management and to evaluate the impact of strategic management on performance. Manandhar makes a comparative study between public and private sectors from the perspective of strategic management and performance. A descriptive cross-sectional analysis research design has been followed for this study. 15 enterprises both from the

public and private sector have been selected judgmentally including, both manufacturing and service sectors. Eight enterprises have been selected from the private sector and seven from the public sector. Both primary and secondary data have been used for this study. Performance indicators have been calculated for the period of 1995-96 to 1999-2000. Primary data have been collected from 251 questionnaires based on five-point Likert Scale. Hypothesis has been tested using t-test, p-value, rank correlation, z-test and regression analysis. The findings of this study clearly show that proper strategic management including design, implementation and improvement leads to success. Improvement in the strategic management process requires the creation of a conducive operational environment in an organization. Strategic management tends to be more effective only when the structure is appropriate, organizational climate is warm and management process like decision making, communications, co-ordinations and monitoring and controlling the properly established. Strategy influences the performance variables like access to market, building image and market share, generating sales growth and better utilization of resources and improving productivity. The results of the test of hypothesis confirm the existence of difference in the public and private sector enterprises in respect to organization structure, management practice and aspects of that strategic management. Similarly, the result further shows that strategic management positively affects performance variables. Lack of strategic actions leads to inertia, which may prove to be a cause of closure of the enterprise in the long run.

Thapa (2013) has examined the applicability of generic strategy and firm performance in banking industry in Nepal. The focus is on performance difference between the generic strategy types. Primary and secondary data have been used for this study. Primary data have been collected through structured questionnaire. Secondary data have been collected through annual report. Out of total population 32 commercial banks, 20 commercial banks have been taken as samples. Likert-scale test has been used to check reliability and validity of the questionnaire. Value of Cronbach Alpha is 0.77. The findings suggest that commercial banks employing the combination of differentiation and focus on a specific market and commercial banks employing a pure differentiation strategy had higher performance than other commercial banks employing other generic strategies within each generic strategy, only emphasize on the cost cutting and internal efficiency programme which contribute to the prediction of performance but which is not statistically significant.

To sum up, the above major studies on critical strategic practices are significantly associated with organizational performance for each of Porter's generic strategies. Previous studies have not identified strategic practices associated with Porter's generic strategies in Nepalese organizations. Because a chosen strategy is a set of operationalized practices and tactics, understanding the critical practices linked with organizational performance for each generic strategy can provide a clearer guidance for top management and strategic planners. These priorities require a focused action toward organizational success, as evidenced from the organization's performance in Nepalese organizations. Study on impact of factor loaded strategic practices, i.e. product differentiation, cost leadership on capital market perception of Nepalese enterprises, is still remaining.

3.3 Methodological aspects

I. Nature and sources of data

To measure capital market perception of firms strategy of Nepalese listed enterprises, secondary data have been used. These data have been collected from Security Board of Nepal, Nepal Stock Exchange and concerned companies i.e. selected enterprises which are mentioned in chapter one. Data were collected from fiscal year 2000/01 to 2011/12 and all collected data were converted into five-year moving average.

II. Method of analysis

The following procedures and statistical tools have been used for analyzing the data:

A. Strategy measures

To measure strategic positioning of organizations, the following six variables have been typically used to operationalize different strategies:

Selling intensity (SG&A): - It is measured as the selling, general and administrative expenses scaled by net sales. This variable captures a firm's investment in marketing activities to differentiate itself from competitors (Berman, *et al.*, 1999; David, *et al.*, 2002; Miller & Dess, 1993; Thomas, *et al.*, 1991).

Research and development intensity (R&D): - It is measured as the research and development expenditure scaled by net sales. R&D expenses indicate the ability of firms to offer high quality and innovative products and services which are critical to the success of differentiators (Hambrick, 1983; David, *et al.*, 2002; Thomas, *et al.*, 1991).

Gross margin (MARGIN): - It is measured as the net sales scaled by cost of goods sold. A higher ratio captures a greater ability to command premium prices, typically linked with differentiators (Berman, *et al.*, 1999; Kotha & Nair, 1995; Nair & Filer, 2003).

Sales to capital expenditure (SCAPEX): - It is measured as the net sales scaled by capital expenditure on property, plant and equipment.

Sales to book value of plant and equipment (SPE): - It is measured as the net sales scaled by net book value of plant and equipment. A higher value for these variables indicates a more efficient use of the firm's assets (Berman, *et al.*, 1999; Hambrick, 1983; Kotha & Nair, 1995; Miller & Dess, 1993).

Employee to assets (EA): - It is measured as the number of employee scaled by total assets (Hambrick, 1983; Kotha & Nair, 1995; Nair & Filer, 2003) where number of employees is used in the numerator as an alternative proxy for size (output) instead of net sales.

Three (SCAPEX, SPE and EA) measures capture a firm's efficiency in utilizing its capital investments (David, *et al.*, 2002). Balsam, *et al.* (2011) used three variables (SG&A, R&D and MARGIN) to measure strategic positioning based on the differentiation dimension and three other variables (SCAPEX, SPE and EA) to measure strategic positioning based on cost leadership (Asdemi, *et al.*, 2013).

B. Capital market perception

Capital market perception is measured through Tobin's Q and it is a measure of a firm's market performance, which is the ratio of the market value of a firm's assets (as measured by the market value of its outstanding equity and debt) to the book value of the firm's assets. If a firm has value in excess of what it would cost to rebuild it, then that extra value is due to a premium placed on the firm by stock markets. Hermalin and Weisbach (1998) argue that Tobin's Q is an equity-based measure of firm performance which incorporates not just the results from contemporaneous actions of management, but also the market's expectations of future performance. Tobin's Q may also be used as a measure of a firm's market (or stock price based) performance (Yermack, 1996; Coles, Daniel & Naveen, 2008) and future growth opportunities. This study focuses on to test the extent to which market premium on the level of cost leadership or differentiation is reflected in Tobin's Q.

C. Factor analysis:

Confirmatory factor analysis (CFA) has been used to construct the two strategy variables i.e. cost leadership strategy and differentiation strategy from four variables i.e. SG&A, MARGIN, SCAPEX and SPE.

D. Descriptive statistics

Mean, median, maximum and minimum values and standard deviation have been calculated in this study. These calculations have been used between different variables which were differentiation strategy, cost leadership strategy, Tobin's Q, assets, log (age), log (dividends), loss, advertising expenses/sales, capital expenditure/sales, log (sales) and sales growth.

E. Correlations analysis

Correlation analyses are measured between different variables. These are differentiation strategy, cost leadership strategy, Tobin's Q, assets, log (age), log (dividends), advertising expenses/sales, capital expenditure/sales, log (sales) and sales growth.

F. Regression analysis

$TQ_{i,t} = b_0 + b_1 \text{Diff}_{i,t} + b_2 \text{CL}_{i,t} + b_3 \text{LnSize}_{i,t} + b_4 \text{LnAge}_{i,t} + b_5 \text{LnDividend}_{i,t} + \varepsilon_{i,t} \dots \dots \dots (i)$
(Asdemir et.al, 2013)

$TQ_{i,t} = b_0 + b_1 \text{Diff}_{i,t} + b_2 \text{CL}_{i,t} + b_3 \text{R\&D}_{i,t} + b_4 \text{Adv}_{i,t} + b_5 \text{CapEx}_{i,t} + b_6 \text{LogSales}_{i,t} + \varepsilon_{i,t} \dots (ii)$
(Asdemir et.al, 2013)

Where, $TQ_{i,t}$ is Tobin's Q of a firm i in a period t is computed (total assets + market value of equity – book value of equity - deferred taxes)/total assets (Brown & Caylor, 2006). $\text{Diff}_{i,t}$ and $\text{CL}_{i,t}$ refer to the strategies pursued by a firm as determined by individual factor scores in different periods. Controls variables are used $\text{Size}_{i,t}$ $\text{Age}_{i,t}$ (as per Brown & Caylor, 2006) and $\text{Dividend}_{i,t}$ (as per Servaes, 1996). $\text{Size}_{i,t}$ is the natural logarithm of total assets of a firm i , in a period t which controls for firm size, $\text{Age}_{i,t}$ is the natural logarithm age of a firm i in a period t , age in years is calculated on the basis of the establishment year and $\text{Dividend}_{i,t}$ is natural logarithm of cash dividends of firm i in a period t .

$\text{R\&D}_{i,t}$ is research and development expense scaled by sales revenue of a firm i in a period t , $\text{Adv}_{i,t}$ is advertising expenses scaled by sales revenue of a firm i in a period t ,

$CapEx_{i,t}$ is capital expenditures divided by sales revenue of a firm i in a period t and $LogSales_{i,t}$ is natural logarithm of sales revenue of a firm i in a period t .

3.4 Analysis of data

I. Structure of factors affecting market performance

Different financial tools have been used to measure capital market perception in this study. These are Tobin's Q, sales revenue, total assets, cash dividend, ratio of advertising expenses to sales and ratio of capital expenditure on property, plant and equipment to sales.

A. Tobin's Q

The computed value of Tobin's Q of 10 manufacturing enterprises and 3 hotels from fiscal year 2000/01 to 2011/12 are presented in table 3.6. The value of Tobin's Q varies widely from one enterprise to another. The average value of Tobin's Q is the largest for UNL (2.954) followed by FHL (2.217), SHL (2.124), GRUL (1.688), BNL (1.665), HDL (1.379), OHL (1.325), SSML (1.302), BNTL (1.262), NLOL (1.209), NBBUL (0.963), TRHL (0.961) and RJML (0.907).

The value of Tobin's Q varies widely within the individual enterprises as well. It varies from 1.257 to 2.468 for BNL, -2.385 to 2.387 for BNTL, 1.869 to 4.212 UNL, 0.918 to 1.071 NBBUL, 1.23 to 2.175 for GRUL, 1.571 to 2.56 for FHL, 0.875 to 2.079 for SSML, 1.169 to 1.637 for HDL, 0.479 to 1.094 for RJML, 0.993 to 1.72 for NLOL, 0.937 to 1.872 OHL, 1.405 to 3.441 for SHL and 0.572 to 1.444 for TRHL. Average value of Tobin's Q of 13 enterprises is largest for fiscal year 2007/08 (1.935) followed by 08/09 (1.814), 09/10 (1.708), 10/11 (1.708), 06/07 (1.673), 05/06 (1.495), 11/12 (1.403), 04/05 (1.381), 00/01 (1.376), 01/02 (1.362), 03/04 (1.286) and 02/03 (1.279). Weighted average value of Tobin's Q of 13 enterprises of 12 fiscal years is 1.535.

Value of standard deviation with average value of Tobin's Q of 12 fiscal years of each company is the largest for BNTL (1.2) is followed by SHL (0.85), UNL (0.809), SSML (0.367), BNL (0.341), FHL (0.308), OHL (0.307), GRUL (0.305) TRHL (0.258), RJML (0.249), NLOL (0.224), HDL (0.135) and NBBUL (0.043).

Similarly, standard deviation which is calculated average value of Tobin's Q of 13 enterprises of each fiscal year is largest for fiscal year 2011/12 (1.343) followed by 07/08 (1.031), 08/09 (0.886), 06/07 (0.852), 09/10 (0.842), 10/11 (0.691), 05/06 (0.629), 01/02 (0.532), 04/05 (0.423), 03/04 (0.398), 00/01 (0.397) and 02/03 (0.387).

Table 3.6**Tobin's Q of the selected firms for the period of 2000/01 to 2011/12**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 1.655 | 1.645 | 1.634 | 1.398 | 1.488 | 1.257 | 1.386 | 1.702 | 1.662 | 1.515 | 2.468 | 2.175 | 1.665 | 0.341 |
| BNTL | 1.754 | 1.404 | 1.2 | 1.279 | 1.159 | 1.527 | 1.478 | 2.387 | 1.997 | 1.612 | 1.729 | -2.385 | 1.262 | 1.2 |
| UNL | 2.063 | 2.566 | 1.869 | 1.95 | 2.169 | 3.147 | 3.939 | 4.212 | 3.651 | 3.156 | 3.302 | 3.427 | 2.954 | 0.809 |
| NBBUL | 1.007 | 0.998 | 1.071 | 0.96 | 0.918 | 0.926 | 0.944 | 0.947 | 0.943 | 0.959 | 0.944 | 0.934 | 0.963 | 0.043 |
| GRUL | 1.365 | 1.23 | 1.286 | 1.462 | 1.739 | 1.827 | 1.979 | 2.175 | 2.013 | 1.58 | 1.729 | 1.865 | 1.688 | 0.305 |
| FHL | 1.571 | 1.908 | 1.935 | 1.966 | 2.192 | 2.329 | 2.49 | 2.308 | 2.354 | 2.445 | 2.56 | 2.543 | 2.217 | 0.308 |
| SSML | 0.875 | 1.021 | 1.048 | 1.045 | 1.031 | 1.048 | 1.241 | 1.367 | 1.504 | 1.728 | 1.64 | 2.079 | 1.302 | 0.367 |
| HDL | 1.169 | 1.216 | 1.279 | 1.369 | 1.382 | 1.394 | 1.435 | 1.567 | 1.637 | 1.455 | 1.368 | 1.281 | 1.379 | 0.135 |
| RJML | 1.037 | 0.525 | 0.496 | 0.479 | 0.96 | 1.011 | 0.996 | 1.046 | 1.087 | 1.092 | 1.094 | 1.056 | 0.907 | 0.249 |
| NLOL | 1.72 | 1.508 | 1.289 | 1.263 | 1.238 | 1.207 | 1.202 | 1.039 | 1.026 | 0.993 | 1.02 | 0.997 | 1.209 | 0.224 |
| OHL | 0.937 | 1.017 | 1.118 | 1.142 | 1.245 | 1.245 | 1.427 | 1.828 | 1.872 | 1.654 | 1.242 | 1.169 | 1.325 | 0.307 |
| SHL | 1.756 | 1.8 | 1.463 | 1.421 | 1.405 | 1.499 | 2.38 | 3.673 | 3.263 | 3.441 | 1.73 | 1.652 | 2.124 | 0.85 |
| TRHL | 0.974 | 0.868 | 0.938 | 0.981 | 1.034 | 1.011 | 0.854 | 0.904 | 0.578 | 0.572 | 1.373 | 1.444 | 0.961 | 0.258 |
| Mean | 1.376 | 1.362 | 1.279 | 1.286 | 1.381 | 1.495 | 1.673 | 1.935 | 1.814 | 1.708 | 1.708 | 1.403 | 1.535 | |
| S.D. | 0.397 | 0.532 | 0.387 | 0.398 | 0.423 | 0.629 | 0.852 | 1.031 | 0.886 | 0.842 | 0.691 | 1.343 | | |

Source: Annual audit report of individual company of each year

B. Sales revenue

Sales revenue of 10 manufacturing enterprises and 3 hotels of 12 fiscal years as well as average sales revenue and value of standard deviation with average sales revenue have been presented in table 3.7. This table shows that sales revenue varies widely from one enterprise to another. The average value of sales revenue of 12 fiscal years of individual enterprise is the largest for UNL (Rs 2158 million) followed by BNL (Rs 978 million), SSML (Rs 645 million), RJML (Rs 637 million), BNTL (Rs 589 million), HDL (Rs 587 million), SHL (Rs 559 million), TRHL (Rs 447 million), GRUL (Rs 411 million), OHL (Rs 341 million), NBBUL (Rs 260 million), NLOL (Rs 166 million) and FHL (Rs 31 million).

The sales revenue varies widely within the individual enterprises as well. It varies from Rs 525 million to Rs. 2371 million for BNL, Rs 354 million to Rs.1155 million for BNTL, Rs 1236 million to 4232 million for UNL, Rs 72 million to 583 million for NBBUL, Rs 305 million to 611 million for GRUL, Rs 13 million to 48 million for FHL, Rs 423 million to 1249 million for SSML, Rs 89 million to 1350 million for HDL, Rs 295 million to 1125 million for RJML, Rs 72 million to 283 million for NLOL, Rs 175 million to 659 million for OHL, Rs 284 million to 1068 million for SHL and Rs 110 million to 890 million for TRHL.

Average sales revenue of 13 enterprises of 12 fiscal years each is largest for fiscal year 2011/12 (Rs. 1159 million), 10/11 (Rs. 985 million), 09/10 (Rs. 885 million), 08/09 (Rs 689 million), 07/08 (Rs. 577 million), 06/07 (Rs. 537 million), 05/06 (Rs. 455 million), 03/04 (Rs. 421 million), 04/05 (Rs. 411 million), 02/03 (Rs. 365 million), 01/02 (Rs. 348 million) and 2000/01 (Rs. 377 million). Weighted average value of sales revenue of 13 enterprises of 12 fiscal years is Rs. 600.7 million.

Result of standard deviation which is computed on the basis of average value of sales revenue of 12 fiscal years of individual company is the largest for UNL (Rs. 993 million) and it is followed by BNL (Rs. 615 million), HDL (Rs. 396 million), RJML (Rs. 302 million), SHL (Rs. 264 million), BNTL (Rs. 256 million), TRHL (Rs. 255 million), SSML (Rs. 211 million), OHL (Rs. 154 million), NBBUL (Rs. million152), GRUL (Rs. 100 million), NLOL (Rs. 68 million) and FHL (Rs.12 million). Similarly, standard deviation value which is the result on the basis of average sales revenue of 13 enterprises of each fiscal year is largest for fiscal year 2011/12 (Rs. 1107 million) and followed by 10/11 (Rs.900 million), 09/10 (Rs. 757 million), 08/09 (Rs. 628 million), 07/08 (Rs. 519 million), 06/07 (Rs. 427 million), 00/01 (Rs. 402 million), 03/04 (Rs. 376 million), 04/05 (Rs. 359 million), 05/06 (Rs. 344 million), 01/02 (Rs. 320 million) and 02/03 (Rs. 319 million).

Table 3.7**Sales revenue of the selected firms for the period of 2000/01 to 2011/12 (in million rupees)**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 525 | 535 | 610 | 632 | 615 | 622 | 634 | 747 | 1003 | 1588 | 1852 | 2371 | 978 | 615 |
| BNTL | 424 | 461 | 465 | 432 | 401 | 354 | 485 | 475 | 621 | 845 | 954 | 1155 | 589 | 256 |
| UNL | 1541 | 1236 | 1245 | 1525 | 1482 | 1435 | 1819 | 2145 | 2626 | 3055 | 3557 | 4232 | 2158 | 993 |
| NBBUL | 87 | 101 | 72 | 165 | 223 | 201 | 336 | 238 | 393 | 583 | 384 | 338 | 260 | 152 |
| GRUL | 408 | 381 | 401 | 352 | 341 | 403 | 364 | 305 | 473 | 589 | 611 | 303 | 411 | 100 |
| FHL | 20 | 13 | 24 | 19 | 15 | 30 | 36 | 42 | 43 | 39 | 44 | 48 | 31 | 12 |
| SSML | 655 | 524 | 537 | 611 | 423 | 641 | 565 | 746 | 533 | 533 | 722 | 1249 | 645 | 211 |
| HDL | 89 | 95 | 204 | 315 | 454 | 530 | 657 | 641 | 643 | 1003 | 1061 | 1350 | 587 | 396 |
| RJML | 295 | 422 | 367 | 382 | 482 | 478 | 654 | 596 | 671 | 1053 | 1122 | 1125 | 637 | 302 |
| NLOL | 72 | 136 | 119 | 85 | 118 | 149 | 184 | 168 | 233 | 269 | 170 | 283 | 166 | 68 |
| OHL | 246 | 176 | 175 | 249 | 214 | 278 | 326 | 343 | 407 | 462 | 562 | 659 | 341 | 154 |
| SHL | 435 | 296 | 300 | 371 | 284 | 415 | 519 | 579 | 707 | 809 | 929 | 1068 | 559 | 264 |
| TRHL | 110 | 146 | 227 | 330 | 295 | 380 | 408 | 471 | 599 | 678 | 832 | 890 | 447 | 255 |
| Mean | 377 | 348 | 365 | 421 | 411 | 455 | 537 | 577 | 689 | 885 | 985 | 1159 | 600.7 | |
| S.D. | 402 | 320 | 319 | 376 | 359 | 344 | 427 | 519 | 628 | 757 | 900 | 1107 | | |

Source: Annual audit report of individual company of each year

C. Total assets

Total assets of selected 13 enterprises of 12 fiscal years as well as average total assets and value of standard deviation with average total assets are presented in table 3.8. This table shows that total assets vary widely from one enterprise to another. The average value of total assets is the largest for TRHL (Rs 3076 million) followed by OHL (Rs 1273 million), BNL (Rs 1244 million), UNL (Rs 1101 million), SSML (Rs 913 million), SHL (Rs 769 million), BNTL (Rs 711 million), GRUL (Rs 683 million), HDL (Rs 584 million), RJML (Rs 440 million), NBBUL (Rs 210 million), NLOL (Rs 156 million) and FHL (Rs 61 million).

The Total assets varies widely within the individual enterprises. It varies from Rs 887 million to 1952 million for BNL, Rs 436 million to 1480 million for BNTL, Rs 571 million to 1924 million for UNL, Rs 95 million to 389 million for NBBUL, Rs 564 million to 839 million for GRUL, Rs 50 million to 78 million for FHL, Rs 657 million to 1132 million for SSML, Rs 507 million to 680 million for HDL, Rs 292 million to 657 million for RJML, Rs 112 million to 235 million for NLOL, Rs 1155 million to 1747 million for OHL, Rs 626 million to 1264 million for SHL and Rs 2676 million to 3428 million for TRHL.

Average total assets of 13 firms in different fiscal years is not identical. Table 3.8 shows that largest average total assets for fiscal year 2011/12 is Rs. 1111 million, followed by 10/11 (Rs. 997 million), 09/10 (Rs. 925 million), 02/03 (Rs. 833 million), 08/09 (832 million), 06/07 (Rs. 822 million), 01/02 (Rs. 818 million), 00/01 (Rs. 811 million), 04/05 (Rs. 810 million), 03/04 (Rs. 807 million), 07/08 (Rs. 798 million) and 05/06 (Rs. 795 million). Weighted average value of total assets of 13 enterprises of 12 fiscal years is Rs. 863 million.

Result of standard deviation which is computed on the basis of average value of total assets of 12 fiscal years of individual company is largest for UNL (Rs. 367 million), followed by BNL (Rs. 333 million), BNTL (Rs. 296 million), TRHL (Rs.254 million), SHL (Rs. 199 million), SSML (Rs. 166 million), OHL (Rs. 166 million), RJML (Rs. 132 million), NBBUL (Rs. 116 million), GRUL (Rs. 85 million), HDL (Rs. 60 million), NLOL (Rs. 42 million) and FHL (Rs. 8 million).

Similarly, the value of standard deviation which is the result on the basis of average of total assets of 13 enterprises of each fiscal year is largest for fiscal year 2001/02 (Rs. 874 million) followed by 02/03 (Rs. 869 million), 03/04 (Rs. 852 million), 04/05 (Rs. 816 million), 05/06 (Rs. 809 million), 00/01 (Rs. 798 million), 11/12 (Rs. 792 million), 06/07 (Rs. 763 million), 07/08 (Rs. million739), 10/11 (Rs. 732 million), 08/09 (Rs. 729 million) and 09/10 (Rs. 717 million).

Table 3.8**Total assets of the selected firms for the period of 2000/01 to 2011/12 (in million rupees)**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 1033 | 1036 | 1038 | 887 | 975 | 1048 | 1256 | 1190 | 1256 | 1460 | 1791 | 1952 | 1244 | 333 |
| BNTL | 642 | 673 | 655 | 572 | 619 | 419 | 524 | 436 | 608 | 856 | 1044 | 1480 | 711 | 296 |
| UNL | 760 | 571 | 785 | 940 | 1099 | 967 | 985 | 1088 | 1212 | 1380 | 1505 | 1924 | 1101 | 367 |
| NBBUL | 99 | 108 | 95 | 100 | 131 | 142 | 217 | 205 | 310 | 389 | 382 | 344 | 210 | 116 |
| GRUL | 839 | 812 | 703 | 660 | 622 | 604 | 586 | 564 | 664 | 734 | 682 | 722 | 683 | 85 |
| FHL | 53 | 50 | 56 | 59 | 55 | 56 | 55 | 65 | 66 | 69 | 69 | 78 | 61 | 8 |
| SSML | 1049 | 1058 | 1132 | 1066 | 986 | 922 | 1014 | 846 | 691 | 657 | 845 | 686 | 913 | 166 |
| HDL | 576 | 554 | 532 | 507 | 558 | 546 | 579 | 573 | 549 | 678 | 680 | 679 | 584 | 60 |
| RJML | 292 | 312 | 303 | 307 | 325 | 458 | 475 | 486 | 471 | 612 | 587 | 657 | 440 | 132 |
| NLOL | 112 | 116 | 143 | 115 | 127 | 145 | 141 | 151 | 175 | 227 | 185 | 235 | 156 | 42 |
| OHL | 1329 | 1283 | 1250 | 1241 | 1186 | 1177 | 1155 | 1161 | 1173 | 1187 | 1390 | 1747 | 1273 | 166 |
| SHL | 647 | 639 | 716 | 693 | 626 | 635 | 667 | 677 | 727 | 894 | 1041 | 1264 | 769 | 199 |
| TRHL | 3114 | 3428 | 3420 | 3350 | 3221 | 3210 | 3024 | 2927 | 2910 | 2883 | 2754 | 2676 | 3076 | 254 |
| Mean | 811 | 818 | 833 | 807 | 810 | 795 | 822 | 798 | 832 | 925 | 997 | 1111 | 863 | |
| S.D. | 798 | 874 | 869 | 852 | 816 | 809 | 763 | 739 | 729 | 717 | 732 | 792 | | |

Source: Annual audit report of individual company of each year

D. Cash dividend

Cash dividend of 10 manufacturing enterprises and 3 hotels of 12 fiscal years as well as average cash dividend and value of standard deviation with average cash dividend are presented in table 3.9. This table shows that cash dividend varies widely from one enterprise to another. The average value of cash dividend is the largest for UNL (Rs 241 million) followed by BNL (Rs 40 million), BNTL (Rs 26 million), SHL (Rs 11 million) and NLOL as well as NBBUL (Rs 1 million) each. Dividend is paid by UNL of all fiscal years i. e. from 2000/01 to 2011/12 except fiscal year 2008/09. Dividend is paid by BNL for all fiscal years except from fiscal year 2004/05 to 2006/07 and 2008/09. Similarly, dividend is paid by BNTL all the fiscal years except 2005/06, 2006/07 and 2008/09. Cash dividend is paid by SHL except from fiscal year 2002/03 to 2006/07. Dividend is paid by NBBUL from 2006/07 onwards. Dividend is paid by NLOL only in fiscal years 2004/05 and 2008/09. Out of 13 firms, cash dividend is not paid by 6 firms in 12 fiscal years these are GRUL, FHL, SSML, HDL, RJML, OHL and TRHL. Highest value of standard deviation of cash dividend payment is UNL, BNL, BNTL, SHL, NLOL and NBBUL respectively.

Average cash dividend payment of 13 firms in different fiscal years is not identical. Table 3.9 shows that largest average dividend paid for fiscal year 2011/12 (Rs. 58 million), followed by 10/11 (Rs. 52 million), 07/08 (Rs. 48 million), 09/10 (Rs. 36 million), 04/05 (Rs. 29 million), 06/07 (Rs. 20 million), 05/06 (Rs. 18 million), 03/04 (Rs. 9 million), 02/03 (Rs. 9 million), 00/01 (Rs. 8 million), 01/02 (Rs. 6 million) and 08/09 (Rs. 1 million). Weighted average value of cash dividend of 13 enterprises of 12 fiscal years is Rs. 25 million.

Result of standard deviation which is computed on the basis of average value of 12 fiscal years of individual company is largest for UNL (Rs. 191 million) followed by BNL (Rs. 67 million), BNTL (Rs. 30 million), SHL (Rs. 15 million), NLOL (Rs. 1 million), NBBUL (Rs. 1 million) and remaining enterprise is 0. Similarly, standard deviation value which is the result on the basis of average cash dividend of 13 enterprises of each fiscal year is largest for fiscal year 2011/12 (Rs. 149 million) followed by 10/11 (Rs. 142 million), 09/10 (Rs. 114 million), 04/05 (Rs. 102 million), 07/08 (Rs. 99 million), 06/07 (Rs. 70 million), 05/06 (Rs. 64 million), 03/04 (Rs. 25 million), 02/03 (Rs. 23 million), 00/01 (Rs. 15 million), 01/02 (Rs. 12 million) and 08/09 (Rs. 3 million).

Table 3.9**Cash dividend of the selected firms for the period of 2000/01 to 2011/12 (in million rupees)**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 15 | 19 | 19 | 10 | 0 | 0 | 0 | 224 | 0 | 10 | 78 | 107 | 40 | 67 |
| BNTL | 11 | 18 | 12 | 12 | 6 | 0 | 0 | 95 | 0 | 35 | 60 | 57 | 26 | 30 |
| UNL | 51 | 37 | 83 | 92 | 368 | 230 | 253 | 299 | 0 | 414 | 516 | 543 | 241 | 191 |
| NBBUL | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 2 | 2 | 2 | 2 | 2 | 1 | 1 |
| NLOL | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 1 | 1 |
| SHL | 26 | 7 | 0 | 0 | 0 | 0 | 0 | 9 | 10 | 11 | 20 | 49 | 11 | 15 |
| Mean | 8 | 6 | 9 | 9 | 29 | 18 | 20 | 48 | 1 | 36 | 52 | 58 | 25 | |
| S.D. | 15 | 12 | 23 | 25 | 102 | 64 | 70 | 99 | 3 | 114 | 142 | 149 | | |

Source: Annual audit report of individual company of each year

E. Advertising expenses to sales ratio

Advertising expenses to sales ratio of 10 manufacturing enterprises and 3 hotels of 12 fiscal years as well as average ratio of advertising expenses to sales and value of standard deviation with average ratio of advertising expenses to sales are presented in table 3.10. This table shows that the percentage of advertising expenses on sales varies widely from one enterprise to another. The average value of ratio of advertising expenses to sales is the largest for UNL (11.82 percent) followed by FHL (10.05 percent), HDL (6.52 percent), NLOL (3.55 percent), SSML (3.29 percent), TRHL (3.05 percent), BNL (2.75 percent), SHL (2.11 percent), OHL (1.78 percent), BNTL (1.35 percent), NBBUL (0.17 percent), GRRUL (0.07 percent) and RJML (0.01 percent). The ratio of advertising expenses to sales varies widely within the individual enterprises. It varies from 1.19 percent to 4.63 percent for BNL, 0.34 percent to 2.26 percent for BNTL, 6.74 percent to 16.4 percent for UNL, 0 to 0.3 percent for NBBUL, 0 to 0.33 percent for GRUL, 2.6 percent to 22.69 percent for FHL, 0.01 percent to 38.98 percent for SSML, 2.84 percent to 9.14 percent for HDL, 0 to 0.03 percent for RJML, 0.61 percent to 9.57 percent for NLOL, 0.87 percent to 4.32 percent for OHL, 0.74 percent to 3.86 percent for for SHL and 1.01 percent to 14.72 percent for TRHL.

Average percent of advertising expenses to sales of 13 firms in different fiscal years is varied widely. Table 3.10 shows that largest average percent of advertising expenses to sales is for fiscal year 2002/03 (6.87 percent) followed by 05/06 (4.15 percent), 01/02 (3.95 percent), 07/08 (3.62 percent), 00/01 (3.61 percent), 04/05 (3.5 percent), 03/04 (3.2 percent), 09/10 (2.97 percent), 10/11 (2.84 percent), 06/07 (2.77 percent), 11/12 (2.75 percent) and 08/09 (2.73 percent). Weighted average percent of advertising expenses to sales of 13 enterprises of 12 fiscal years is 3.58.

Result of standard deviation which is computed on the basis of average value of 12 fiscal years of individual company is largest for SSML (11.24 percent), FHL (7.28 percent), TRHL (3.76 percent), NLOL (3.61 percent), UNL (2.62 percent), HDL (1.85 percent), BNL (1.16 percent), SHL (1.12 percent), OHL (1.07 percent), BNTL (0.67 percent), GRUL (0.1 percent) NBBUL (0.08 percent) and RJML (0.01 percent). Similarly, standard deviation value which is the result on the basis of average ratio of advertising expenses to sales of 13 enterprises of each fiscal year is largest for f 2002/03 (10.74 percent) followed by 05/06 (6.67 percent), 00/01 (5.32 percent), 01/02 (5.32 percent), 2007/08 (4.75 percent), 2003/04 (4.56 percent), 04/05 (4.48 percent), 09/10 (4.44 percent), 10/11 (3.84 percent), 11/12 (3.8 percent), 06/07 (3.57 percent) and 08/09 (3.44 percent).

Table 3.10**Advertising expenses to sales ratio in percentage of the selected firms for the period of 2000/01 to 2011/12**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 4.23 | 4.63 | 4.29 | 2.94 | 1.61 | 1.19 | 1.76 | 3.05 | 2.93 | 1.57 | 2.64 | 2.15 | 2.75 | 1.16 |
| BNTL | 1.59 | 1.94 | 2.06 | 0.94 | 1.63 | 2.26 | 1.42 | 1.91 | 0.49 | 0.4 | 1.26 | 0.34 | 1.35 | 0.67 |
| UNL | 6.74 | 10.16 | 13.2 | 16.4 | 13.72 | 11.88 | 8.65 | 11.71 | 10.28 | 14.56 | 12.17 | 12.35 | 11.82 | 2.62 |
| NBBUL | 0.2 | 0.3 | 0.26 | 0.14 | 0.13 | 0.22 | 0.15 | 0.27 | 0.13 | 0.1 | 0 | 0.16 | 0.17 | 0.08 |
| GRUL | 0.04 | 0.06 | 0.19 | 0.33 | 0.03 | 0.03 | 0.02 | 0.01 | 0 | 0.05 | 0.04 | 0.04 | 0.07 | 0.1 |
| FHL | 19.93 | 18.91 | 14.49 | 3.17 | 10.29 | 22.69 | 10.16 | 6.4 | 3.52 | 4.34 | 2.6 | 4.1 | 10.05 | 7.28 |
| SSML | 0.09 | 0.09 | 38.98 | 0.05 | 0.04 | 0.05 | 0.07 | 0.04 | 0.05 | 0.03 | 0.02 | 0.01 | 3.29 | 11.24 |
| HDL | 2.84 | 5.17 | 7.18 | 8.24 | 8.69 | 9.14 | 7.67 | 5.31 | 7.33 | 4.74 | 5.84 | 6.04 | 6.52 | 1.85 |
| RJML | 0.03 | 0.03 | 0.02 | 0.01 | 0.01 | 0.02 | 0.01 | 0.01 | 0.01 | 0.01 | 0 | 0 | 0.01 | 0.01 |
| NLOL | 0.89 | 0.61 | 1.3 | 1.34 | 1.41 | 0.92 | 0.93 | 1.73 | 7.37 | 9.57 | 8.95 | 7.6 | 3.55 | 3.61 |
| OHL | 4.32 | 3.44 | 2.25 | 1.46 | 1.85 | 1.53 | 1.26 | 0.87 | 1.15 | 1.18 | 1.13 | 0.94 | 1.78 | 1.07 |
| SHL | 2.92 | 3.06 | 2.61 | 3.32 | 3.86 | 2.5 | 2.49 | 1.06 | 0.74 | 0.85 | 0.9 | 1.05 | 2.11 | 1.12 |
| TRHL | 3.06 | 2.99 | 2.42 | 3.26 | 2.19 | 1.57 | 1.39 | 14.72 | 1.46 | 1.13 | 1.34 | 1.01 | 3.05 | 3.76 |
| Mean | 3.61 | 3.95 | 6.87 | 3.2 | 3.5 | 4.15 | 2.77 | 3.62 | 2.73 | 2.97 | 2.84 | 2.75 | 3.58 | |
| S.D. | 5.32 | 5.32 | 10.74 | 4.56 | 4.48 | 6.67 | 3.57 | 4.75 | 3.44 | 4.44 | 3.84 | 3.8 | | |

Source: Annual audit report of individual company of each year

F. Capital expenditure on property plant and equipment to sales ratio

Capital expenditure on property, plant and equipment to sales ratio of 10 manufacturing enterprises and 3 hotels of 12 fiscal years as well as average ratio of capital expenditure on property, plant and equipment to sales ratio and its standard deviation are presented table 3.11. This table shows that the percentage of above ratio varies widely from one enterprise to another. The average value of ratio of capital expenditure on property, plant and equipment to sales is the largest for TRHL (68.51 percent), followed by OHL (14.6 percent), BNL (11.43 percent), SHL (10.67 percent), BNTL (8.53 percent), HDL (7.12 percent), RJML (5.21 percent), SSML (3.42 percent), FHL (2 percent), GRUL (1.46 percent), UNL (1.04 percent), NLOL (0.36 percent) and NBBUL (-0.88 percent).

The ratio of capital expenditure on property, plant and equipment to sales varies widely within the individual enterprises as well. It varies from 2 percent to 36.26 percent for BNL, 1.14 percent to 21.15 percent for BNTL, -0.14 percent to 2.68 for UNL, -31.11 percent to 14.34 percent for NBBUL, 0.01 percent to 3.62 percent for GRUL, 0.07 percent to 7.43 percent for FHL, 0.25 percent to 8.41 percent for SSML, 1.96 percent to 16.14 percent for HDL, 1.47 percent to 23.11 percent for RJML, 0 to 1.05 percent for NLOL, 1.35 percent to 59.46 percent for OHL, 1.52 percent to 31.84 percent for SHL and -27.25 percent to 523.79 percent for TRHL.

Average percent of capital expenditure on property, plant and equipment to sales of 13 firms in different fiscal years is varied widely. Table 3.11 shows that largest average percent of capital expenditure on property, plant and equipment to sales is for fiscal year 2000/01 (46.47 percent), followed by 01/02 (22.93 percent), 10/11 (7.84 percent), 05/06 (7.32 percent), 02/03 (7.29 percent), 09/10 (6.53 percent), 11/12 (5.73 percent), 07/08 (4.69 percent), 08/09 (4.48 percent), 04/05 (3.63 percent), 06/07 (3.29), percent) and 03/04 (2.98 percent). Weighted average percent of capital expenditure on property, plant and equipment to sales of 13 enterprises of 12 fiscal years is 10.27.

Result of standard deviation which is computed on the basis of average value of 12 fiscal years of individual company is largest for TRHL (159.27 percent), OHL (17.75 percent), BNL (11.21 percent), NBBUL (10.32 percent), SHL (8.47 percent), BNTL (6.5 percent), RJML (5.89 percent), HDL (4.54 percent), SSML (2.52 percent), FHL (1.89 percent), GRUL (1.16 percent), UNL (0.86 percent) and NLOL (0.39 percent).

Similarly, standard deviation value which is the result on the basis of capital expenditure on property, plant and equipment to sales of 13 enterprises of each fiscal year is largest for fiscal year 2000/01 (143.64 percent) followed by 01/02 (66.21 percent), 11/12 (19.36 percent), 06/07 (13.18 percent), 02/03 (11.07 percent), 10/11 (10.39 percent), 05/06 (9.86 percent), 09/10 (5.88 percent), 04/05 (4.75 percent), 07/08 (4.19 percent), 08/09 (3.91 percent) and 03/04 (2.39 percent).

Table 3.11**Capital expenditure to sales ratio in percentage of the selected firms for the period of 2000/01 to 2011/12**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 4.22 | 4.33 | 3.44 | 2 | 6.52 | 32.34 | 36.26 | 11.86 | 11.92 | 8.03 | 10.81 | 5.42 | 11.43 | 11.21 |
| BNTL | 1.14 | 2.02 | 12.44 | 1.32 | 10.94 | 4.46 | 4.64 | 4.3 | 11.57 | 16.72 | 21.15 | 11.7 | 8.53 | 6.5 |
| UNL | 2.47 | 0.69 | -0.14 | 0.66 | 0.99 | 2.68 | 1.52 | 0.56 | 0.63 | 1.6 | 0.42 | 0.37 | 1.04 | 0.86 |
| NBBUL | 1.24 | 0.92 | 1.47 | 0.55 | 0.69 | 0.13 | 0.06 | 0.03 | 1.49 | 14.34 | -0.36 | -31.11 | -0.88 | 10.32 |
| GRUL | 3.62 | 2.2 | 0.01 | 2.04 | 0.93 | 1.03 | 1.17 | 0.13 | 3.45 | 1.36 | 0.84 | 0.69 | 1.46 | 1.16 |
| FHL | 1.65 | 1.28 | 0.07 | 1.63 | 0.35 | 1.99 | 1.93 | 7.43 | 2.97 | 2.19 | 1.69 | 0.77 | 2 | 1.89 |
| SSML | 3.39 | 2.19 | 1.37 | 8.41 | 0.34 | 0.25 | 4.39 | 5.4 | 5.47 | 1.09 | 3.08 | 5.63 | 3.42 | 2.52 |
| HDL | 13.72 | 16.14 | 6.64 | 5.46 | 1.96 | 5.01 | 3.66 | 4.77 | 5.79 | 11.73 | 8.5 | 2.1 | 7.12 | 4.54 |
| RJML | 5.6 | 4.6 | 1.94 | 3.46 | 2.26 | 23.11 | 7.12 | 2.9 | 1.7 | 4.58 | 3.74 | 1.47 | 5.21 | 5.89 |
| NLOL | 0.93 | 0.21 | 0.4 | 1.05 | 0.66 | 0.11 | 0.72 | 0.13 | 0.03 | 0 | 0.01 | 0.02 | 0.36 | 0.39 |
| OHL | 29.52 | 4.65 | 5.24 | 3.36 | 4.3 | 4.94 | 1.35 | 12.7 | 8.01 | 6.33 | 35.29 | 59.46 | 14.6 | 17.75 |
| SHL | 12.81 | 16.34 | 31.84 | 2.5 | 1.52 | 6.61 | 7.15 | 4.32 | 3.38 | 14.26 | 13.17 | 14.08 | 10.67 | 8.47 |
| TRHL | 523.79 | 242.58 | 30.01 | 6.29 | 15.7 | 12.56 | -27.25 | 6.51 | 1.78 | 2.68 | 3.59 | 3.92 | 68.51 | 159.27 |
| Mean | 46.47 | 22.93 | 7.29 | 2.98 | 3.63 | 7.32 | 3.29 | 4.69 | 4.48 | 6.53 | 7.84 | 5.73 | 10.27 | |
| S.D. | 143.64 | 66.21 | 11.07 | 2.39 | 4.75 | 9.86 | 13.18 | 4.19 | 3.91 | 5.88 | 10.39 | 19.36 | | |

Source: Annual audit report of individual company of each year

II. Factor analysis

Factor analysis has been carried out to reduce four different variables MARGIN, SG&, SCAPEX, and SPE into two variables which are differentiation and cost leadership strategy. Correlation matrixes of four strategic variables are presented in table 3.12.

Table 3.12
Correlation matrix

| | MARGIN | SG&A | SCAPEX | SPE |
|--|----------|---------|--------|-----|
| MARGIN | 1 | | | |
| SG&A | 0.798* | 1 | | |
| SCAPEX | -0.153 | -0.07 | 1 | |
| SPE | -0.279** | -0.333* | 0.493* | 1 |
| Note: * Significant at 0.01 level ** Significant at 0.05 levels *** Significant at 0.10 levels | | | | |

Table 3.12 presents correlation between four variables these are MARGIN, SG&A, SCAPEX, and SPE. Out of four variables, there is high degree of positive correlation between MARGIN and SG&A and low degree of positive correlation between SPE and SCAPEX at 1 percent level. The correlation of the SG&A and SPE is low degree of negative correlation at 1 percent level and between MARGIN and SPE is low degree of inverse relation at 5 percent level.

KMO and Bartlett's test of four strategic variables are presented in table 3.13.

Table 3.13
KMO and Bartlett's test

| Particulars | Results | |
|---|--------------------|---------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy | | 0.519 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 146.453 |
| | df | 6 |
| | Sig. | 0 |

The KMO measures the sampling adequacy, which should be greater than 0.5 for a satisfactory factor analysis to proceed (Hutcheson & Sofroniou, 1999). Table 3.13 shows that KMO measure is 0.519 and therefore, it is satisfactory. Rotated Component Matrix and Communalities of four strategic variables are presented in table 3.14

Table 3.14**Rotated component matrix and communalities**

| | Component | | Communalities |
|--------|-----------|-------|---------------|
| | Diffit | CLit | |
| MARGIN | 0.947 | | .879 |
| SG&A | 0.929 | | .906 |
| SCAPEX | | 0.896 | .803 |
| SPE | | 0.813 | .736 |

SG&A and MARGIN support component 1 and it is denoted by differentiation strategy. SCAPEX and SPE support component 2 and it is denoted by cost leadership strategy and it is similar with Asdemir *et.al.*, (2013). With all communalities above 0.6, relatively small samples (less than 100) may be perfectly adequate. Samples between 100 and 200 can be good enough provided there are relatively few factors each with only a small number of indicator variables, with communalities in the 0.5 range (MacCallum, Widaman, Zhang & Hong, 1999). The value of communalities presented in the last column of 3.14 of each component is adequate in 104 numbers of observations. Total variance explained of differentiation and cost leadership strategy are presented in table 3.15.

Table 3.15**Total variance explained**

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings Rotation Sums of Squared Loadings | | | | | |
|-----------|---------------------|---------------|--------------|---|---------------|--------------|-------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| MARGIN | 2.106 | 52.649 | 52.649 | 2.106 | 52.649 | 52.649 | 1.835 | 45.874 | 45.874 |
| SG&A | 1.219 | 30.463 | 83.112 | 1.219 | 30.463 | 83.112 | 1.489 | 37.237 | 83.112 |
| SCAPEX | 0.489 | 12.227 | 95.339 | | | | | | |
| SPE | 0.186 | 4.661 | 100 | | | | | | |

Extraction Method: Principal Component Analysis.

Table 3.15 shows all the factors extractable from the analysis along with their eigenvalues, the percent of variance attributable to each factor, and the cumulative variance of the factor. First factor accounts for 52.649 percent of the variance, the second 30.463 percent, a total of 83.112 percent of the total variance. All the remaining factors each control only small amounts of variance is 16.888 percent.

III. Descriptive statistics

Table 3.16 presents descriptive statistics of different variables such as differentiation strategy, cost leadership strategy, value of Tobin's Q, natural logarithm of total assets, natural logarithm of firm age in a year, natural logarithm of cash dividend, ratio of advertisement expenses to sales, ratio of capital expenditure on property, plant and equipment to sales, natural logarithm of sales revenue and sales growth.

Table 3.16
Descriptive statistics

| | Unit | N | Mean | Median | Std. Deviation | Minimum | Maximum |
|----------------------------------|--------|-----|---------|---------|----------------|---------|---------|
| Diff_{i,t} | Ratio | 104 | 0 | -0.2323 | 1 | -1.1957 | 2.71035 |
| CL_{i,t} | “ | 104 | 0 | -0.2752 | 1 | -1.6178 | 7.5873 |
| TQ_{i,t} | “ | 104 | 1.46976 | 1.38114 | 0.96665 | -1.9474 | 3.84747 |
| LnSize_{i,t} | Rupess | 104 | 8.74445 | 8.82005 | 0.43975 | 7.73626 | 9.52191 |
| LnAge_{i,t} | Year | 104 | 2.7531 | 2.6391 | 0.62776 | 1.1 | 4.17 |
| LnDividend_{i,t} | Rupees | 45 | 9.14182 | 9.18447 | 2.16463 | 5.34615 | 12.7784 |
| Adv_{i,t} | Ratio | 104 | 3.7E-05 | 2E-05 | 4.2E-05 | 0 | 0.00016 |
| CapEx_{i,t} | “ | 104 | 0.06195 | 0.04023 | 0.10708 | -0.0088 | 0.96077 |
| LnSales_{i,t} | Rupees | 104 | 8.58055 | 8.63457 | 0.43432 | 7.25095 | 9.49456 |
| SalesGrowth_{i,t} | Ratio | 91 | 1.12822 | 1.13692 | 0.08835 | 0.94861 | 1.38133 |

Table 3.16 presents the descriptive statistics of all the variables which are used in this study in different number of observations. Mean value and standard deviation of both strategies, i.e. cost leadership strategy and differentiation strategy are 0 and 1 respectively. Median value of differentiation strategy and cost leadership strategy is -0.2323 and -0.2752 respectively. Maximum and minimum value of differentiation strategy and cost leadership strategy are (-1.1957, 2.71035) and (-1.6178, 7.5873) respectively.

IV. Correlation analysis

Table 3.17 presents correlation of capital market perception (Tobin's Q), differentiation strategy, cost leadership strategy and other controlled variables. Controlled variables are natural logarithm of total assets, natural logarithm of firm age in a year, natural logarithm of cash dividend, ratio of advertisement expenses to sales, ratio of capital expenditure on property, plant and equipment to sales, natural logarithm of sales revenue and sales growth.

Table 3.17
Correlation analysis

| | Diff _{i,t} | CL _{i,t} | TQ _{i,t} | LnSize _{i,t} | LnAge _{i,t} | LnDividend _{i,t} | Adv _{i,t} | CapEx _{i,t} | LnSales _{i,t} | SalesGrowth _{i,t} |
|----------------------------|---------------------|-------------------|-------------------|-----------------------|----------------------|---------------------------|--------------------|----------------------|------------------------|----------------------------|
| Diff _{i,t} | 1 | | | | | | | | | |
| CL _{i,t} | 0 | 1 | | | | | | | | |
| TQ _{i,t} | 0.254* | -0.133 | 1 | | | | | | | |
| LnSize _{i,t} | 0.427* | -0.28* | 0.328* | 1 | | | | | | |
| LnAge _{i,t} | -0.148 | 0.033 | 0.087 | -0.057 | 1 | | | | | |
| LnDividend _{i,t} | -0.086 | -0.314** | 0.636* | 0.868* | -0.038 | 1 | | | | |
| Adv _{i,t} | -0.031 | 0.149 | 0.365* | -0.172 | -0.402* | 0.624* | 1 | | | |
| CapEx _{i,t} | 0.39* | -0.149 | 0.057 | 0.338* | 0.001 | 0.277*** | -0.142 | 1 | | |
| LnSales _{i,t} | -0.091 | -0.061 | 0.409* | 0.74* | 0.264* | 0.939* | -0.137 | 0.047 | 1 | |
| SalesGrowth _{i,t} | 0.074 | 0.089 | 0.006 | -0.013 | -0.039 | 0.108 | 0.112 | 0.198*** | -0.038 | 1 |

Note: * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels Pearson correlation

Table 3.17 reports that low degree of positive correlation is observed between differentiation strategy with capital market perception, natural logarithm of total assets and capital expenditure on property, plant and equipment divided by sales of a firm *i* in a period *t* at 1 percent level. There is low degree of inverse relationship between cost leadership strategy and natural logarithm of total assets at 1 percent level and cost leadership strategy with natural logarithm of cash dividend at 5 percent level.

V. Regression analysis

A regression result of Tobin's Q regressed on differentiation and cost leadership strategy of a firm *i* in a period *t* with different controlled variables can be expressed by the following formula:

$$TQ_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{CL}_{i,t} + \beta_3 \text{LnSize}_{i,t} + \varepsilon_{i,t} \dots (1)$$

$$TQ_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{CL}_{i,t} + \beta_3 \text{LnSales}_{i,t} + \varepsilon_{i,t} \dots (2)$$

$$TQ_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{CL}_{i,t} + \text{Adv}_{i,t} + \varepsilon_{i,t} \dots (3)$$

$$TQ_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{CL}_{i,t} + \beta_3 \text{LnAge}_{i,t} + \beta_4 \text{LnSize}_{i,t} + \varepsilon_{i,t} \dots (4)$$

$$TQ_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{CL}_{i,t} + \beta_3 \text{CapEx}_{i,t} + \beta_4 \text{Adv}_{i,t} + \varepsilon_{i,t} \dots (5)$$

$$TQ_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{CL}_{i,t} + \beta_3 \text{LnSales}_{i,t} + \beta_4 \text{CapEx}_{i,t} + \varepsilon_{i,t} \dots (6)$$

Where, $TQ_{i,t}$ = Capital market value of equity plus total assets minus book value of equity minus deferred tax deflated by total assets of a firm *i* in a period *t*, $\text{Diff}_{i,t}$ = Differentiation strategy of a firm *i* in a period *t*, $\text{CL}_{i,t}$ = Cost leadership strategy of a firm *i* in a period *t*, $\text{LnSize}_{i,t}$ = natural logarithm of total assets of a firm *i* in a period *t*, $\text{LnSales}_{i,t}$ = natural logarithm of sales revenue of a firm *i* in a period *t*, $\text{Adv}_{i,t}$ = advertising expenses scaled by sales revenue of a firm *i* in a period *t*, $\text{LnAge}_{i,t}$ is a natural logarithm of an age of a firm *i* in a period *t* and $\text{CapEx}_{i,t}$ is a capital expenditure on property plant and equipment divided by sales revenue of a firm *i* in a period *t*.

α_0 is constant value, $\beta_1, \beta_2, \beta_3$ are slopes of independent variables and ε_{it} is error term. Before dependent variable is regressed on independent variables, Glejser test has been used for detecting heteroscedasticity problems and which were found in all regression models. Dependent and all independent variables have been divided by unstandardized predicted variables of respective regression model to minimize heteroscedasticity problems. The computed values of above six regression equations for the selected enterprises are presented in table 3.18.

The present study hypothesizes that coefficient value of differentiation and cost leadership strategy are positive, i.e. hypothesis three and next estimated result of coefficient value of differentiation strategy, is greater than cost leadership i.e. hypothesis four. The regression result of all regression equations separately shows that value of VIF is less than 10. Hence, it is approved that there is no multicollinearity and value of DW of each regression equation has approved that there is no auto correlation. F-ratio of regression model first, second, third, fifth and sixth is statistically significant at 1 percent LOS but model fourth is statistically significant at 5 percent LOS.

Out of three independent variables of model first, the sign of two independent variables namely cost leadership strategy and natural logarithm of total assets are statistically insignificant. The sign of coefficient value of independent variable differentiation strategy is positive and statistically significant at 5 percent level. The explanatory power of the model is reasonably low given as the R^2 is estimated at 11.7 percent. In the perspective of Tobin's Q and differentiation strategy, other variables keeping constant one unit (ratio) increases in differentiation strategy, 0.372 unit in Tobin's Q. Hence, it does not support hypothesis three but supports to hypothesis four.

Table 3.18 shows empirical regression results of model second, explanatory power of the model in this study is reasonably high as R^2 is 0.653 indicating that 65.3 percent variation in the level of satisfaction is explained by variation of the independent variables included in this model. It confirms the hypotheses that the signs of two independent variables i.e. differentiation and cost leadership strategy are positive and significant. It means both independent variables affecting positively on capital market perception. But coefficient value of differentiation strategy and cost leadership strategy is positive and negative respectively and both are significant at 1 percent level. Hence, it does not support hypothesis three and supports to four.

Coefficient value of differentiation and cost leadership strategy are positive and negative respectively and both values are statistically significant at 1 percent of regression model third. Coefficient value of controlled variables is positive and statistically significant at 10 percent level. It can be observed that the explanatory power of the model in this study is reasonably low as R^2 is 0.303 indicating that 30.3 percent variation in the level of satisfaction is explained by variation of the independent variables included in the model. This equation does not support hypothesis three and it supports hypothesis four.

Table 3.18

Regression result of Tobin's Q on differentiation and cost leadership strategy and other controlled variables natural logarithm of total assets, natural logarithm of sales revenue, advertising expenses divided by sales revenue, natural logarithm of firm's age & capital expenditure divided by sales of a firm i in a year t.

| Models | Model 1 | | | Model 2 | | | Model 3 | | | Model 4 | | | Model 5 | | | Model 6 | | |
|--|---|---------|-------|---|---------|------|---|---------|------|---|---------|------|--|---------|------|--|---------|-------|
| Variables | Coeff. | T value | VIF | Coeff. | T value | VIF | Coeff. | T value | VIF | Coeff. | T value | VIF | Coeff. | T value | VIF | Coeff. | T value | VIF |
| Constants | .981*** | 1.732 | | -0.07 | -0.55 | | 0.895* | 8.313 | | 1.779 | 1.624 | | 0.882* | 6.452 | | 0.04 | 0.294 | |
| Diff _{i,t} | 0.372** | 2.219 | 2.238 | 0.79* | 6.466 | 1.18 | 0.39* | 4.106 | 1.14 | 0.379* | 2.258 | 2.09 | 0.382* | 3.859 | 1.23 | 0.89* | 6.929 | 1.436 |
| Cl _{i,t} | -0.126 | -1.413 | 1.665 | -0.31* | -4.92 | 1.0 | -0.174* | -3.497 | 1.16 | -0.145 | -1.646 | 1.53 | -0.174* | -3.498 | 1.17 | -0.34* | -5.55 | 1.02 |
| LnSize _{i,t} | 0.007 | 0.079 | 2.861 | | | | | | | 0.081 | 1.075 | 2.31 | | | | | | |
| LnSales _{i,t} | | | | .181* | 12.53 | 1.18 | 6250*** | | | | | | | | | 0.18* | 11.49 | 1.25 |
| Adv _{i,t} | | | | | | | | 1.708 | 1.17 | | | | 6462* | 1.684 | 1.27 | | | |
| LnAge _{i,t} | | | | | | | | | | -0.129 | -0.695 | 2.42 | | | | | | |
| CapEx _{i,t} | | | | | | | | | | | | | 0.191 | 0.144 | 1.16 | -2.78* | -2.77 | 1.25 |
| | R ² = 0.117 F = 4.432 * D.W. = 2.317, d.f. = 100 | | | R ² = 0.653 F = 62.646* D.W. = 2.134, d.f. = 100 | | | R ² = 0.303 F = 14.508* D.W. = 2.117, d.f. = 100 | | | R ² = 0.118 F = 3.32** D.W. = 2.345, d.f. = 99 | | | R ² = 0.304 F = 10.801* D.W. = 2.114, d.f. = 99 | | | R ² = 0.621 F = 40.591* D.W. = 2.026, d.f. = 99 | | |
| Note: Number of Observations = 104 * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels | | | | | | | | | | | | | | | | | | |

Regression model fourth depicts regression results from multiple regression models. Here, the explanatory power of the model is reasonably low given by the R^2 at 0.118 in this model. There is only positive and significant relation between Tobin's Q and differentiation at 5 percent level. Hence, it supports only hypothesis four. In the perspective of regression model fifth, the explanatory power of the model is reasonably low given by the R^2 at 0.304 in this model. Coefficient value of independent variables differentiation and cost leadership strategy is significant at 1 percent level. Out of two controlled variables, coefficient value of advertising expenses divided by sales is statistically significant at 10 percent but coefficient value of controlled variable capital expenditure divided by sales is statistically insignificant. Coefficient value of differentiation strategy is positive but coefficient value of cost leadership strategy is negative. Hence, it is just opposite as per prior expectation of hypothesis three but coefficient value of differentiation strategy is higher as well as positive. Hence, it is as per prior expectation of result of hypothesis four.

Table 3.18 presents that coefficient value of all independent variables are significant at 1 percent with Tobin's Q. Value of R^2 explores 62.1 percent area of model sixth. The above results confirm that there is a positive relation between differentiation and perception of capital markets but inverse relation between cost leadership and perception of capital markets. Hence, this result does not support the hypothesis three but it lends credence to hypothesis four.

3.5 Discussion

Porter (1980) and Hambrick (1983) have posited that firms pursuing either a cost leadership or a differentiation strategy are better able to gain competitive advantages and accordingly achieve superior performance over competitors. This study examines how capital markets evaluate the strategic positioning of the firms. According to the efficient market hypothesis, all relevant information about a firm (or stock) is incorporated in the stock price. Accordingly, capital markets place a positive value on a firm pursuing either a differentiation or a cost leadership strategy. This study focuses on the investigation of the market pricing of the strategic orientations of firms, and further whether there is any potential mispricing of the strategies. These variables capture the strategic positioning of the firms using publicly available data. This study regresses

these strategy variables against Tobin's Q which is a widely accepted measure of market's perception (Morck, Shleifer & Vishny, 1988; Yermack, 1996; Brown & Caylor, 2006).

Firms adopting a cost leadership strategy aim to increase market share based on creating a low-cost position relative to their peers. Cost leadership may be achieved through large volume manufacturing and utilizing economies of scale, process improvements, cost minimization, total quality management, just-in-time manufacturing, benchmarking, overhead cost control, etc. Therefore, this study expects capital markets to be cognizant of the value implications of firm strategy and also posits that firms which are successful in pursuing cost leadership strategy will enjoy higher capital market valuations.

Conversely, a differentiation strategy may be achieved by investing in developing products or services that offer exceptional characteristics that the customers desire, enabling the firm to command premium prices (Ghemawat, 1995). Given the discussed ease with which sources of competitive advantage may be imitated, some firms have still been able to generate superior performance over sustained periods of time (Wiggins & Ruefli, 2002). Based on the above discussion, this study expects that the performance of firms pursuing differentiation will be more sustainable into the future. As a result, capital markets will place a higher value on firms pursuing a differentiation strategy compared to firms pursuing a cost leadership strategy.

This study focusses on listed manufacturing and hotel industries. First of all, differentiation and cost leadership strategy is created through factor analysis. Before factor analysis, four components are calculated. Out of these, first component is MARGIN. It is the result of five-year moving average of sales revenue which is divided by five-year moving average of cost of goods sold. Second component is SG & A and it is the result of selling, general and administrative expenses divided by sales. Third component is SCAPEX and it is the result of net sales scaled by capital expenditure on property, plant and equipment. Fourth component is SPE and it is the result of sales divided by net book value of plant and equipment.

Four components are classified into two parts through rotated component matrix (factor analysis). Out of four components, SG&A and MARGIN has supported to component 1

and it is denoted by differentiation strategy. SCAPEX and SPE has supported to component 2 and it is denoted by cost leadership strategy. Value of KMO and communalities confirm that there is sample adequacy.

Firms successfully pursuing either a cost leadership or a differentiation strategy are better able to gain competitive advantages over other firms and accordingly achieve superior performance. Thus, if firms actually do realize superior performance based on their strategic orientation, capital markets should recognize this and place a positive value on such strategy-focused firms. The aim of this study is to empirically investigate how capital markets perceive and reward the strategies pursued by firms.

Results of six different multiple regressions confirm that capital markets places a positive value on differentiation strategy, i.e. result does not support hypothesis three. Similarly, the result of above multiple regressions incontrovertibly show that capital markets place a higher value on firms pursuing a differentiation strategy than on firms pursuing a cost leadership strategy, i.e. this study supports hypothesis four.

The analysis of this study shows that capital market places a positive value on firms successfully pursuing a differentiation strategy but capital market places a negative value on firms pursuing a cost leadership strategy. Out of two chapters analysis result, result of chapter II presents that cost leadership strategy is better than differentiation strategy but result of chapter III has presented that differentiation strategy is better than cost leadership strategy in perception of capital markets. But there is no answer of the impact of differentiation and cost leadership on bankruptcy risk which is necessary for alive of the firms. Hence, next chapter focuses on the relationship between firm strategy and bankruptcy risk of Nepalese enterprises.

CHAPTER IV

Bankruptcy Risk and Firm Strategy

4.1 Introduction

Bankruptcy is an important fact of life in the modern business environment. Bankruptcy occurs when a firm is unable to meet its obligations and applies to a federal court either for a period of relief to reorganize its debts or to liquidate its assets. It has an extremely disruptive effect on the firm undergoing bankruptcy and also on its various stakeholders such as employees, creditors, suppliers and customers. Precise bankruptcy forecasts are of great interest to academics, practitioners, and regulators. Regulators use forecasting models to monitor the financial health of banks, pension funds, and other institutions. Practitioners use default forecasts in conjunction with models like that of Duffie and Singleton (1997) to price corporate debt. Academics use bankruptcy forecasts to test various conjectures like the hypothesis that bankruptcy risk is priced in stock returns (e.g. Dichev, 1998). Given the broad interest in accurate forecasts, a superior forecasting technology is valuable.

The models of Altman (1968), Ohlson (1980), Zmijewski (1984), Lau (1987) and those of several other authors are specified. Some authors have addressed the deficiencies of existing bankruptcy models. Queen and Roll (1987) and Theodossiou (1993) have developed dynamic forecasting models. This study builds on the work of these researchers by explicitly addressing the bias in static models and developing a consistent model. Bankruptcy forecasters are not the only researchers who can benefit from the results of this study. Forecasters of corporate mergers have also applied static models to multiple-period data sets. In particular, the merger model of Palepu (1986) is biased and inconsistent in the same way as the bankruptcy studies listed above.

There are some empirical results of a study predicting corporate failure as evidenced by the event of bankruptcy. There have been a fair number of previous studies in this field of research; the more notable published contributions are Beaver (1966; 1968a; 1968b), Altman (1968). Two unpublished papers by White and Turnbull (1975a; 1975b) and a paper by Santomero and Vinso (1977) are of particular interest as they appear to be the first studies which logically and systematically develop probabilistic estimates of failure.

Although bankruptcy is a one-off discrete event, financial distress in firms that may lead to bankruptcy is generally evident long before the event. Early indicators of bankruptcy include losses in multiple consecutive years, cash flows drying up, declining sales, etc. Research in the past 50 years has resulted in objective measures of bankruptcy risk. The most famous of these measures, the Altman Z-score, combines several measures of performance and risk to come up with a score that denotes the bankruptcy risk inherent in a firm. For this measure, and most other bankruptcy risk measures, performance is an important contributor to bankruptcy risk. However, performance that is analyzed with respect to bankruptcy and bankruptcy risk has almost, without exception, been accounting related measures.

Extant bankruptcy literature has generally focused on predicting which firms will file for bankruptcy protection. Altman (1968), Ohlson (1980), Zmijewski (1984) and Hillegeist, Keating, Cram, and Lundstedt, (2004) and others show that the accounting information available prior to a bankruptcy filing predicts whether a firm will file for bankruptcy protection. One of the more popular and robust accounting-based bankruptcy prediction models is the Altman's Z-score model first discussed in Altman (1968). The Altman model uses discriminant analysis (DA) to combine five ratios into a score that represents the firms' financial strength which is used to predict bankruptcy.

Altman Z-score has been used to proxy for many bankruptcy-related measures. Piotroski (2000) uses the Altman Z-score to proxy for financial distress and Elliott, *et al.* (2010) use it to measure default risk. In addition to the firm level research, macroeconomic events have also been found to be related to bankruptcy risk. There has been substantial research on the macroeconomic impacts on bankruptcy risk. In early studies Altman (1971) finds that economic decline, credit tightness, and decreased market performance are related to bankruptcy risk. More recently, Bhattacharjee, *et al.* (2009) combine both macroeconomic variables and firm specific financial variables to examine UK and US bankruptcies and acquisitions. Bankruptcy models typically use financial information which summarizes a firm's overall performance and financial condition.

The strategy of cost leadership is aimed at achieving an above-average return on investment within an industry by means of "a high relative market share or other advantages such as favorable access to raw materials" (Porter, 1980). Thus, cost

leadership requires a strong focus on the supply side as opposed to the demand side of the market. In particular, firms pursuing a cost leadership strategy must continuously benchmark themselves against other competing firms in order to assess their relative cost (and therefore profitability) position in the marketplace. This requires a high level of competitor orientation (Day & Wensley, 1988). Thus, expectations of cost leaders are to be competitor rather than customer-oriented. Moreover, cost leaders are unlikely to engage in developing and launching new products, as cost leadership positions are mostly achieved by refining existing products or models (Dess & Davis, 1984). Consequently, it is not expected a direct effect of a cost leadership strategy on new product activity, after controlling for any indirect effects via competitor orientation.

The generic strategy of differentiation involves creating a market position that is perceived as being unique industry-wide and that is sustainable over the long run (Porter, 1980). Such differentiation can be based upon design or brand image, technology, features, customer services, distribution, and so forth. In particular, differentiator firms create customer value by offering high-quality products supported by good service at premium prices (Walker & Ruekert, 1987). The effectiveness of a differentiation strategy depends on how well the firm can balance product benefits and product costs for the customer, relative to competitive offerings (Bryan Fernando, & Tripathy, 2013). Consequently, such a strategy requires a thorough understanding of both customer needs and the positioning of competing firms (Day & Wensley, 1988; Porter, 1996).

A firm's emphasis on differentiation will, therefore, positively influence both its customer and competitor orientation. In particular, firms that employ technology as a primary means of achieving competitive advantage, differentiate themselves through products that employ cutting-edge technology (Hamel & Prahalad, 1991; Miller, 1986). For example, Gatignon and Xuereb (1997) found that firms with a strategic orientation towards technology marketed products that were more radical, less similar to competing offerings and provided greater benefits. Given their objective of developing new products that create new market opportunities, technology-oriented differentiators are likely to engage in innovative activities without a specific orientation towards customers or competitors (cf. Workman, 1993). Specifically, customers may not be a fruitful source of ideas for radical new products (Berthon, Hulbert, & Pitt, 1999);

indeed, study suggests that a customer orientation may be harmful for innovation in such cases as it can stimulate myopia for new opportunities (Christensen & Bower, 1996).

Hambrick (1983) cost leadership is achieved through cost efficiency (using the lowest amount of input for a given level of output) and asset parsimony (using the lowest amount of fixed assets to generate a given level of output). Thus, a cost leadership strategy is closely linked to productivity improvements, since productivity is the proficiency with which different inputs are combined to generate a specified output. Further, Chang, *et al.* (2012) found that firms that follow a cost leadership strategy have higher levels of productivity.

On the other hand, firms pursuing a differentiation strategy create value using a different paradigm with the focus being primarily on generating high margins through the uniqueness of products, price inelasticity, customer loyalty and innovative distribution channels. Hence, there is heavy emphasis on R&D expenses and advertising to create unique product features and also generate customer awareness and brand loyalty. Productivity is not essential for a differentiator; in fact, the process of implementing a differentiation strategy (such as product uniqueness, emphasis on quality, etc.) may actually be detrimental to a focus on productivity. Chang, *et al.* (2012) formally has demonstrated that firms that concentrate on differentiation do so at the expenses of productivity and productivity reduces bankruptcy risk (Bryan, *et al.*, 2013).

Finally, empirical studies shows that one potential benefit of a successful implementation of either generic strategy is a lower bankruptcy risk and this study also highlights that for cost leadership; the lower risk is in part mediated through productivity improvement. Hence, this chapter has examined the relationship between bankruptcy risk and firm strategy. The remaining analyses in this chapter are as follows: section 5.2 outlines previous research risk and firm strategy. Section 5.3 describes data and testing methodology. The results are presented in section 5.4. Finally, section 5.5 provides a discussion about overall the results.

4.2 Literature review

The literature review on generic strategies, competitive advantages, and strategic position of firm and bankruptcy risk has been organized in to five parts.

- I. Review of major studies during 1980s
- II. Review of major studies during 1990s
- III. Review of major studies during 2000s
- IV. Review of major studies during 2010s
- V. Review of major studies in Nepalese context

I. Review of major studies during 1980s

There are some studies that are undertaken till 1990. Table 4.1 presents the summary of review of the studies undertaken till 1990. It includes the brief summary with their findings.

Table 4.1
Major studies during 1980s

| Study | Major findings |
|---------------------------|---|
| Miller (1988) | Cost leadership has a negative relationship with uncertainty, especially among high performers |
| Miller (1989). | Porter's strategy of innovative differentiation related significantly to information processing, interaction and assertiveness in strategy making, especially among the most profitable firms, cost leadership had very few notable associations with decision making |
| Zajac and Shortell (1989) | Changes in generic strategy are not rare, and that organizations do not perceive generic strategies to be equally viable in different environment across time. |
| Lewis and Thomas (1990) | Group based on size there are no significant difference in performance measured either ROS, ROCE, or PER between the groups. |

The study on relating Porter's business strategies to environment and structure in the perspectives of analysis and performance implications has been conducted by Miller (1988). This study analyzes strategy at the top of undiversified, autonomous companies. So far as primary data are concerned, the questionnaire was administered in person to the chief executive officer (CEO) and to the most senior vice president or the general manager of each firm. The findings reveal that the strategy of innovative differentiation is most likely to be pursued in uncertain environments and correlates with the use of

liaison devices. The strategy of cost leadership is associated with stable and predictable environments and correlated with the use of controls.

The study on matching strategies and strategy making: process, content and performance has been conducted by (Miller, 1989). It focuses on the relationship between Porter's (1980) business strategies and the process of strategy making. The 98 firms in the sample were selected randomly from the lists published in *Commerce* and *Les Affaires* magazines by industry sector. Firms were, on average, quite small. Sales (mean = \$31 million, SD = \$57 million) and number of employees (mean = 381, median = 100, SD = 962) were modest. Different parts of the questionnaire were administered via interviews to the CEO and the most senior vice president or general manager in the perspective of strategy and strategy making. According to its findings, there is a significant relationship between all independent variables i.e. information processing, interaction and assertiveness in strategy making and the dependent variable strategy of innovative differentiation but there are no important relationships between cost leadership strategy and the strategy-making dimensions i.e. information processing, interaction and assertiveness in strategy making.

Similarly, a study on changing generic strategies in the perspectives of likelihood, direction, and performance implications has been examined by Zajac and Shortell (1989). In this study, data were collected from 574 hospitals with 45 American states. The findings bring to the fore profitability differences; with then results suggesting that generic strategies may not be equally viable. Defenders perform poorly, relative to analyzers and prospectors. In other words, the hospitals' perception that the defender strategy is not as viable in the new health care environment seems to be borne out in terms of actual financial performance. Organization changing to defenders is no more or less profitable than changing to analyzers or prospectors. Performance differences across generic strategies would have been even stronger if new analyzers and prospectors had been excluded.

The linkage between strategy, strategic groups, and performance in the U.K. retail grocery industry study focuses on the linkage between strategy and performance examining strategic groups within the U.K. retail grocery sector. The result of the ANOVA tests for the three sets of three performance variable - return on sales (ROS), return on capital employed (ROCE) and price-earnings ratio (PER) - reveals that there

have been some limited differences between groups' performance in the case of ROS but not for ROCE or PER, but that this is not the case for the strategic groups based on size. A discriminant analysis model indicates that the discriminant function calculated from the key strategy variables is a very accurate predictor of performance for ROS, ROCE, and PER (Lewis & Thomas, 1990).

II. Review of major studies during 1990s

There are a few studies undertaken during 1990s. The summarized review of the studies with their major findings which were conducted by different scholars is provided in the table 4.2.

Table 4.2
Major studies during 1990s

| Study | Major finding |
|---------------------------------------|---|
| Helms and Haynes (1992) | Three strategic groups of retail firms emerge from this cluster analysis comprising those retailers which compete principally with the low-cost strategy, those retailers which compete primarily with the differentiation strategy, and those retailers which compete with a combination strategic profile |
| Priem (1992) | A CEO design rule indicates preferences for differentiation strategies in dynamic environments and cost leadership strategies in stable environments. |
| Nayyar (1993) | Cost leadership and differentiation competitive strategies are mutually exclusive at the product level |
| Parnell and Wright (1993) | Combination strategies are available means for sustaining competitive advantage. |
| Carpano, Chrisman, and Roth (1994) | Performance outcomes associated with specific international environment and business-level strategy |
| Johnson, (1995) | Competitive attributes differ greatly across the three different cluster i.e. globally integrated, locally responsive and multifocal. |
| Kotha and Nair (1995) | Both strategy and environmental variables are significantly related to firm profitability, only environmental variables are associated with firm growth. |
| Dess and Lumpkin, and Covin (1997) | An entrepreneurial strategy making (ESM) and its relationship with strategy, Environment and performance |
| Homburg, Krohmer, and Workman, (1999) | Consensus is a success factor in the case of differentiation strategy but not in the case of a low cost strategy. |

Helms and Haynes (1992) examine the competitive strategies and business performance within the retailing industry. It studies the relationship between competitive strategies and the business performance of retail department, variety and general merchandise stores. This study extends the analysis by empirically investigating strategic approaches

to competitive success adopted by various groups of retailers. Samples consisting of 40 of these firms selected for analysis within this study, include publicly held firms operating continuously for the past five years which earn at least 70 percent of their operating revenues from the operation of department stores, variety stores, or general merchandise stores. Data for each retailer included in the sample have been drawn from archival information, consisting of financial and operating statistics for the five-year period extending from 1984 through to 1988, and have been extracted from sources including annual reports, Securities and Exchange Commission filings, and the Disclosure Database.

Three strategic groups of retail firms have emerged from cluster analysis. The first cluster is a strategic group composed of eight retail firms which compete primarily with the low-cost strategy. These retail businesses reveal their emphasis on low cost by stressing a high level of sales per employee and charging low prices resulting in low gross profit margins on sales. The second group identifies consists of 20 retail businesses which compete principally with the differentiation strategy. These retailers strive to maintain an exclusive image, placing less emphasis on the reduction of direct cost, resulting in lower net sales revenue per employee. However, these retailers command larger gross profit margins on sales than those firms which compete primarily on the basis of low cost. The third strategic group identified consists of 12 retail businesses which compete with a combined low-cost and differentiation approach. The ability of this group of retailers to command a high profit margin on sales demonstrates their success in differentiating meaningfully on the basis of product and/or service. In addition, emphasis on the maintenance of low direct costs by this group of businesses is reflected in high net sales revenues per employee.

A study on application of metric conjoint analysis for the evaluation of top managers' individual strategic decision making processes was highlighted by Priem (1992). Samples consist of 33 chief executive officer (CEO) autonomous, non-diversified manufacturing firms with more than 100 production employees selected from a American Southwestern state's 1989 survey of manufactures and initially contacted via letter and multiple follow up telephone calls.

The firms manufacture a variety of products, including plastic dinnerware, automatic car washes, optoelectronic switches, commercial water heaters, ladies' ready-to-wear dresses, premium chocolate candies, office furniture, and custom minicomputer systems. Its findings show that the significant positive interaction between strategy and environment in this CEO's decision rules indicates preferences for differentiation strategies in dynamic environments and cost leadership strategies in stable environments. The CEOs in the sample exhibit preferences for differentiation strategies.

Nayyar (1993) has investigated into the measurement of competitive strategy. The strategy considers evidences from a large multiproduct U.S. firm. The study is on seeking an empirical solution to the problem: Are cost leadership and differentiation strategy mutually exclusive when measured at the appropriate level? The research has utilized two sets of questionnaires, the first one asking respondents to indicate on a five point scale to which the intended competitive strategy for a product or business has been achieved and the second one separately containing open-ended questions about the advantage of the product or business,

Analysis are based on data on 496 products collected from product/brand managers and data on 64 business collected from marketing managers. The examination is focused on the mutual exclusivity issue. The findings indicate that competitive dimensions generally associated with a differentiation strategy (i.e. new product development, extensive customer service, maintaining brand equity, marketing innovation, influence over distribution channels, targeting high priced segments, advertising, building the firm's reputation, providing products with many features and premium product quality). Similarly, competitive dimensions generally associated with a cost leadership strategy (i.e. operating efficiency, pricing below competitors, managing raw materials cost and availability, trade sales promotion, manufacturing process improvements and innovation and product cost reduction).

The study of relationship in a volatile, dynamic and growing industry has been conducted by Parnell and Wright (1993). It explores the Miles and Snow typology in the context of unique and highly volatile industry-catalogue and mail-order houses.

Two measures of performance, return on assets (ROA) and revenue growth, have been adopted for the purposes of investigation. ROA figures have been provided by the respondents; growth rates have been calculated from the total revenue figures. Revenue growth rates have been also calculated from the data provided by the respondents. The findings reveal that the cluster of business employing combination strategies outperforms the cluster principally adopting the cost leadership and differentiation strategy.

Similarly, a study on international strategy and environment has been conducted by Carpano, Chrisman, and Roth (1994). Data have been collected by using a mail questionnaire from 33 US industrial corporations. The findings disclose that multi domestic industries and companies implementing mass-market strategies exhibit low financial performance and sales growth that have been barely average. On the other hand, in global industries, mass-market strategies have led to high level of sales growth and to an average level of financial performance. In multi domestic industries, the return on investment of companies pursuing segmented or segmented-focus strategies has been higher than the return on investment of companies pursuing mass-market strategies.

An empirical analysis of the integration-responsiveness framework: U.S. construction equipment industry firms in global competition, data have been collected through questionnaire, administered to the chief executive officer or president of the 1800 businesses in the U.S. construction equipment industry. The questionnaire contains questions seeking information about the company's response to industry pressures, as well as questions that assesses the business-level strategies, and performance. Cluster analysis has been used to define and classify groups based on executive perception of sixteen industry variables which have been globally integrated, locally responsive and multifocal. The finding suggests that either business in the globally integrated group place greater emphasis on conservative cost control than will business in the locally responsive group. Business in the multifocal subgroups places greater emphasis on conservative cost control than does business in the locally subgroups. Business in the multifocal group places a greater emphasis on complex innovation than will businesses

in either the globally integrated group or the locally responsive group. Globally integrated businesses place greater emphasis on complex innovation than do the locally responsive groups. Businesses in the global integration subgroup place greater emphasis on quality reputation than do businesses in the multifocal or locally responsive subgroup. Businesses in the multifocal subgroup place greater emphasis on quality reputation than do businesses in the locally responsive subgroup (Johnson, 1995).

A study on strategy and environment as determinants of performance in the perspective of evidence from the Japanese machine tool industry has been conducted by Kotha and Nair (1995). It highlights the effect of environment and strategy on performance using longitudinal data on a sample of 25 Japanese machine tool firms over the period 1979-92. The dependent variables used in this study are return on sales (ROS) and change in sales i.e. growth. Munificence, interdependence, technological change and concentration have been used for environmental variables. Efficiency (cost of good sales/ total sales), capital expenditure (net expenditure for plant and equipment), capital intensity (ratio of assets to the number of employee), advertising intensity (advertising expenses/ sales), exports (foreign sales/total sales) and market share (firms sales/ total sales) were used independent variables. The findings suggest that low-cost strategy based on efficiency and an export-driven scale/ scope strategy are both related positively to return on sales (ROS). Also, a differentiation strategy based on advertising intensity is negatively related to ROS. An asset parsimony strategy based on capital expenditures and a market-share-based scale/ scope strategy are both unrelated to firm-level profitability and growth.

Dess, Lumpkin, and Covin (1997) have examined the nature of entrepreneurial strategy making (ESM) and its relationship with strategy, environment, and performance. Thirty two firms have been taken as a judgment sample for this research. The questionnaires relate to the importance of specific competitive tactics and include two cost leadership items, two innovative differentiation items and three marketing differentiation items. Performance has been measured by obtaining individual (chief executive officer/ President and participating top Management team) responses to three performance

indices with a 7 point likert type include sales growth profitability and return on Investment and overall company performance. Questionnaires ask executives to assess your organization's performance over the past five years relative to the competitors. The findings reveal that cost leadership and entrepreneurial strategy make an interactive impact only the overall company performance variable. The use of a marketing differentiation strategy in a heterogeneous environment is statistically significant and positive for both the profitability/return on investment and overall company performance measures. Higher performance is also indicated for marketing differentiation in an uncertain environment with profitability/ROI as the dependent variable entrepreneurial firms following an innovative differentiation strategy would also be associated with higher performance. This is supported for firms in an uncertain environment (for sales growth and overall performance), as well as for innovative differentiators in a heterogeneous environment (for over-all performance).

Likewise, a study on strategic consensus and performance in the perspectives of the role of strategy type and market-related dynamism focuses on strategic consensus, which was defined as the level of agreement among senior managers concerting the emphasis placed on a specific type of strategy. Primary data for the three industry study have been obtained from strategic business unit (SBU) sectors in the United States and Germany in consumer packaged goods, electrical equipment and components, and mechanical machinery. This study uses a cross-national sample to test for the generalizability. The findings explain that performance implications of strategy consensus clearly depend on the type of strategy. There is significant and consistent positive relationships between consensus on differentiation strategy and performance while there seem to be no performance impacts of consensus on low cost strategy. But consensus differentiation strategy has weaker performance impacts in situations of higher market-related dynamism is also confirmed. Consensus-performance link is stronger institutions of low-market selected dynamism. Successfully implement a differentiation strategy is a higher degree of consensus is important (Homburg, Krohmer, and Workman, 1999).

III. Review of major studies during 2000s

There are a few studies undertaken during 2000 to till date. The summarized reviews of the studies with their major findings are provided in the table 4.3.

Table 4.3
Major studies during 2000s

| Study | Major findings |
|--|---|
| Stanton, Cummings, and Sewell (2001) | Low cost strategy consistently in importance compared differentiation and focus strategy. |
| Powers and Hahn (2002) | Increased number of competitive methods resulted in a higher level of firm performance. |
| Photis (2003) | High performances are more likely to pursue a combination of the generic strategies rather than pursuing on of the generic strategies in isolation. |
| Morgan, Strong, and McGuiness (2003) | on Product process orientation, price cost leadership and product market positions no significant difference were found between any pair of strategic patterns. |
| Thomas and William (2004) | Competitive methods used by bank in the financial service industry conform to generic strategy types and bank following a cost leadership strategy realized statistically significant superior performance when compared to banks that are stuck in the middle. |
| Lance, Edward, and John, (2005) | Imitating the home country MNE modal generic product strategy in each traid nation, emerging market firms (EMFs) can improve their export performance. |
| Bednall and Valos (2005) | The porter typology was successful in predicting market research performance. |
| Richard and Marilyn (2006) | Strategic practices associated with Porter's generic strategies. |
| Yu and Park (2006) | Downsizing showed a positive effect by improving a firm's profitability and efficiency, but no effect on employee productivity. |
| Peter, John, and Gopesh, (2007) | Business strategies and manufacturing investment decisions are empirically supported. |
| Abhav (2007) | Existence of strategic groups in the retailing industry using variations of Porter's three generic strategies. |
| Richard, Marilyn, Margaret, and Charles (2007) | Japanese firms could increase their use of differentiation strategies by creating products and services customers of a high-end market segment would be willing to buy. |
| Timothy and Geoffrey (2008) | Porter's generic positioning strategies can be applied with the nonprofit sector. |
| Jusoh and Parnell (2008) | Malaysian firms view competitive strategy differently and are more likely than their Western counterparts to emphasize the use of financial measures of organizational performance. |
| Liang, Wang, and Farquhar (2009) | Customer perception positively affect financial performance and customers are purchase financial service with dissimilar benefits. |
| Nandakumar, Ghobadian, and Nicholas, (2010) | Environmental dynamism and hostility act as moderators in the relationship between business level strategy and relative competitive performance. |
| Chatzoglou, Diamantidis, Vraimaki, Polychrou, and Chatzitheodorou (2010) | Large total assets give a bank the ability to achieve higher efficiency levels. |
| Munoz-Bullon and Sanchez-Bueno (2010) | Firms which announced severe downsizing experience relatively lower performance in the year following the announcement. |

Marketing strategies of Australian electricity distributors in an opening market has been conducted by Stanton, Cummings, and Sewell. (2001). The utilization of competitive method has been classified according to their consistency with the generic strategic approaches either of being low cost, differentiation or focus. Variables have been measured using a Likert-scale of five points, rating from not at all important (1) to extremely important (5). The findings explain that nine respondents were following a low-cost strategy, three a differentiation strategy, one a focus and another was stuck in the middle strategy and that increased number of competitive methods resulted in a higher level of firm performance.

Skill and resources based competitive methods from the perspective of impact on firm performance have been studied by Powers and Hahn (2002). The focus is on a number of competitive methods used by firms and their impact on firm performance. Lists of the competitive methods include pricing below competitors, continuing, overriding concern for lowest cost per unit, narrow and limited range of services/ products, developing and refining existing service/product offerings, major expenditure based on technology based delivery system to lower costs, economies of scale achieved through merger or consolidation, outsourcing functions or entering into joint ventures to control cost, extremely strict service/product quality control procedures, specific efforts to insure a pool of highly trained/experienced personnel, concerted effort to build the bank's reputation within the industry, following the actions of competitors, building bank name identification, strong branch network, promotion/advertising expenditures above the industry average, major expenditure on technology to differentiate service/products, extensive customer service capabilities, innovation in marketing techniques and methods, broad service/product range, maintaining lending capacity and flexibility, major effort to insure adequate deposit availability, new service/product range, only serve specific geographic markets, emphasis on the marketing of specialty services/products, services/products offered in higher priced mark segments, services/products offered in lower priced market segments and emphasis on training, education and institutional learning.

This study is based on a survey of banks in the New England Federal Reserve district. It has been found that an increased number of competitive methods result in a higher level of firm performance. It has been also found that there is an optimal range of

competitive methods that positively impact on performance. Farms that emphasize between 16 and 20 competitive methods realize higher performance than firms below or above this optimum level.

A study on competitive strategies on organizational performance in ship management has been conducted by Photis (2003). Lickert scale, cluster analysis and correlation analysis have been used in this analysis. The finding suggests that there is a positive relationship between pursuing competitive strategies and company performance in ship management. Companies that apply competitive strategies are more likely to be high performers. The strongest influences on performance seem to be achieving economies of scale, differentiation (in particular through a wider range of services offered) and market-focus and competitor-analysis. It has been suggested that high performers are more likely to pursue a combination of the generic strategies rather than pursuing one of the generic strategies in isolation.

Product market positioning and prospector strategy has been analyzed by Morgan, Strong and McGuinness (2003). It focuses on strategic patterns from the resources based perspective. The sampling frame has been compiled from the Kompas directory of UK firms and, following a systematic random selection, a list of 1,000 medium and large, high technology, industrial manufacturers was generated for survey purposes. The threshold-level for minimum firm size is 100 employees. The findings of this study reveal that prospectors place more emphasis than at least one of the alternative strategic patterns (defenders, analysers and reactors) on marketing capabilities, quality orientation, product scope and development and differentiation focus.

Thomas and William (2004) have analyzed the impact of critical methods on generic strategies and performance advantage between strategy types. The impact of critical competitive methods on performance is tested by comparing the return on assets (ROA) of banks that emphasize all of the critical competitive methods within a strategy group to ROA of banks within that strategy group that do not emphasize all of them. This suggests that superior performance is more difficult to realize for banks following one of these strategies directions than it is for banks following a cost leadership strategy. In fact, as a group, banks that follow a broad differentiation, customer service differentiation, or focus strategy are not able to achieve a statistically significant

performance advantage when compared to other strategy and stuck-in-the-middle groups.

A study on generic product strategies in emerging market experts has been made by Lance, Edward, and John, (2005). It theorizes that, by imitating the home country Multinational Enterprises (MNE) model generic product strategy in each triad nation, emerging market firms (EMFs) can improve their export performance satisfaction. Dependent variable is perceptual measure of firm performance and independent variables are the firm's price, quality and generic product strategy. In this study, two additional control variables are brand and low price. Finally, to control for differences between firms that export industrial products from firms that export consumer products and/or both consumer and industrial products two dummy variables have been created. Hierarchical regression and correlation analysis have been used. The findings suggest that by pursuing a price quality product strategy that is consistent with the model host country MNE product strategy, superior levels of export performance can be achieved.

Similarly, a study on the relationships between operations strategies and operations activities in service context has been conducted by Bednall and Valos (2005). The study analyzes whether strategic orientation affects the evaluation of specific market research projects in for-profit firm or not. A small-scale follow-up survey has been conducted, building on qualitative and quantitative research among a sample of the top-1,000 marketing managers in Australia. The findings explain that when the strategic projects are considered separately, there are no significant relationships shown between the Miles and Snow or Porter strategy types.

Likewise, a study on relationship between strategic practices and organizational performance considers Porter's generic strategies. For this study sample, were taken from 226 graduate students enrolled in either an evening MBA or weekend executive MBA program. Questionnaires were developed to investigate the linkage between Porter's generic strategies, strategic practices and organizational performance. Factor analysis, Likert-scale and regression analysis were used in this study. The findings reveal that a list of critical strategic practices is significantly associated with organizational performance for each of Porter's generic strategies (Richard & Marilyn, 2006).

The effect of downsizing on the financial performance and employee productivity of Korean firms has been investigated by Yu and Park (2006). This study highlights the effect of downsizing both financial performance (return on assets, assets turnover and operating income per employee) and employee productivity (sales per employee and value added per employee). This study analyzes six year longitudinal financial data of 258 listed Korean firms between 1997 and 2002. The findings reveal that positive effect from downsizing on profitability and efficiency measures, is zero or even negative

Peter, John, and Gopesh, (2007) have analyzed the impact of business strategies on manufacturing decisions. Lickert scale, cluster analysis ANOVA, chi-square test have been used for this study. The findings explain that three business strategy-based groups of firms are labeled broad-based competitors, differentiators, and price leaders. These differ in their emphasis on several of the structural and infrastructural areas of manufacturing. Thus, it supports the contention of linkages among business strategy and manufacturing investment decisions.

A study into strategic groups in retailing based on Porter's generic strategies has been made by Abhav (2007). Five hundred questionnaires were administered to general managers of different types of retailers. The survey consisted of forty-three items soliciting information about the strategy of the respondent's company vis-à-vis its competitors. The strategy construct was measured using Porter's three generic strategies of low cost, differentiation and focus/niche. Multiple items were used to measure each of the three generic strategies. Seventy-six completed questionnaires (response rate of 15.2 percent) were received out of which only sixty-six were usable. The respondents came from a variety of retailers. Factor and cluster analysis were used for this study. The results show that existence of strategic groups in the retailing industry using variations of Porter's three generic strategies and there is relationship between strategic groups and their performance.

Richard, Marilyn, Margaret, and Charles (2007) have examined on Japanese companies which have been following either Porter's generic strategies or more traditional "Japanese" management strategies. This study focuses on, are Porter's generic strategies (1985) being used in Japan and if so, what is their frequency of use in Japanese organizations? To test the research question, a sample of 101 managerial employees working in Japanese companies in Tokyo, Japan, was surveyed. Twenty-two

organizations with an average of 633 employees were included in the sample. Respondents had an average of eight years' work experience. Two factors represent Porter generic strategies; namely, cost leadership and product differentiation. The focus strategies have not been represented. The findings suggest that, in Japan, a cost leadership strategy has been the most frequently used strategy and the differentiation strategy the least. There has been no evidence of organizations using a focus strategy. Interestingly, two additional strategies have emerged that do not fit Porter's study but are in line with traditional Japanese strategies including a supply chain focus and a training-based strategy.

Similarly, a study into strategy matters in the perspectives of strategic positioning performance in the education service sector has been examined by Timothy and Geoffrey (2008). It highlights the strategic positioning behavior of Australian educational service institutions to see whether their choice of strategy has impacted their competitiveness in international markets. For sample, some schools, colleges and universities were asked which of Porter's generic strategies positioning they had been using. A questionnaire was developed to ask about such institutions' use of Porter's three strategies and about their performance. The findings reveal that 26 percent educational institutions had adopted a cost leadership strategy as a means of gaining competitive advantage. But the adaptation of differentiation or differentiation/focus strategies by almost half of the respondents suggests that many educational administrators still recognized the need to avoid cost based strategy.

Additionally, a study on competitive strategy and performance measurement in the Malaysian context has been conducted by Jusoh and Parnell (2008). It is focused on modified version of generic strategy scale and categorizing Malaysian firms along the Miles and Snow business strategy typology. The study assesses competitive strategy and performance measurement via survey. A total of 975 firms were randomly selected from the directory of Federation of Malaysian Manufacturers (FMM) as listed in 2003. The findings suggest that there is a significant improvement in financial performance, such as sales growth and return on investment, which is evident among firms pursuing innovation, production efficiency, and customer orientation.

The influence of customer perceptions on financial performance in financial services has been examined by Liang, Wang, and Farquhar (2009). It is focused on the

relationship between customer perceptions (product attributes benefits, customer satisfaction, trust, commitment and customer behavioral loyalty) and financial performance of a merchant bank. A cross-department study in the financial services industry has been conducted, based on three consumer samples (department of loans, deposits, and credit cards) drawn from XYZ bank, one of the most famous banks providing merchant banking services in Taiwan. The findings suggest that financial service providers can influence consumer buying behavior by rewarding consumers for patronizing a specific firm. Additionally, the study results reveal that customer behavioral loyalty positively and significantly affects firm financial performance.

The study into business-level strategy and performance has been made by Nandakumar and Nandakumar, Ghobadian and Nicholas, (2010). It highlights structure on the relationship between business-level strategy and organizational performance from the perspective of the moderating effect of external environment and organizational structure. The study arrives at the conclusion that in low-hostility environments, a cost-leadership strategy and in high-hostility environments, a differentiation strategy lead to better performance compared with competitors. In highly dynamic environments, a cost-leadership strategy and in low dynamic environments, a differentiation strategy is more helpful in improving financial performance. Organizational structure moderates the relationship of both strategic types with return on sales (ROS). However, in the case of return on assets (ROA), the moderating effect of structure has been found only in its relationship with cost leadership strategy.

Productivity of the Greek banking sector has been examined by Chatzoglou, Diamantidis, Vraimaki, Polychrou, and Chatzitheodorou (2010). Profit and loss accounts as well as balance sheet accounts of each bank have been used for examining bank efficiency. The findings explain that large banks perform better than medium- or small-sized ones for the whole three-year period. More specifically, large banks (such as Alpha Bank and Eurobank) and medium banks (such as Bank of Piraeus and Bank of Cyprus) present a constant efficiency, while all the small banks (apart from Bank of Attica) have a decreasing efficiency for most of the years. Thus, the size of a bank is an important factor that affects efficiency, especially when the bank is expanding its network basis. The findings also suggest that large total assets give a bank the ability to

achieve higher efficiency levels; thus, a merger of two small banks will probably increase their efficiency and competitiveness in the long term.

Downsizing implementation and financial performance has been analyzed by Munoz-Bullon and Sanchez-Bueno (2010). The study is focused on whether the way that downsizing is implemented has any impact on the firm's performance. The sample under investigation consists of a set of Spanish companies, which downsized between 1995 and 2001. The findings suggest that corporate financial performance return on assets in the year following downsizing is negatively associated with the size of downsizing, but a non-significant relationship between the ratio of operating earnings to sales and performance has been found. In addition, there are no significant improvements in performance over time after the downsizing decision was taken.

IV. Review of major studies during 2010s

The summarized review of the studies with their major findings, which were conducted by different scholars, are provided in the table 4.4

Table 4.4
Major studies during 2010s

| Study | Major findings |
|--|---|
| Duquesnois, Gurau, Granata, and Roy (2011) | . All investigated firms have adopted one, or a combination of the three generic strategies described by Porter |
| Huang (2011) | Treating hybrid strategies as a stepping stone to strategy purity may be a way to create competitive advantage |
| Parnell, Lester, Long, and Koseoglu (2011) | Combining cost leadership, differentiation and focus strategies were contributing different results in different country in small- and medium sized-enterprises (SMEs) |
| Santos-Vijande, Lopez-Sanchez and Trespalacios, (2011) | Organization learning allows with the collaboration of strategic flexibility, the simultaneous implementation of cost leadership and differentiation strategy, which ultimately yields above average customer and business performance relative to the competition. |
| Bryan, <i>et al.</i> (2013) | Pursuing either of the generic strategies successfully has a positive effect on reducing bankruptcy risk and there is mediating effect of productivity in the relationship between strategy and bankruptcy risk |
| Salvou (2013) | Hybrid as the best-performing form of competitive advantage for Greek food |

Duquesnois, Gurau, Granata, and Roy (2011) have investigated into the strategies of small wine producers in a hostile environment: a study of firms in South France. This

study analyzes the specific strategies applied by the small wine producers from the south of France. A series of academic and professional articles and reports have been reviewed in order to identify the existing theories and studies regarding the strategic choice of firms in a decline or crisis situation. Then, five wine producers have been interviewed, selected from the existing regional winemakers because of their dynamic profiles. The targeted population consisting of 3100 wine makers includes owners and directors of firms located in the Languedoc-Roussillon region in France. In order to collect primary data, a questionnaire has been created and then tested through the interviews realized with five wine producers during the Vinisud 2008 wine exhibition organized in Montpellier. According to its findings, all investigated firms have adopted one, or a combination of the three generic strategies described by Porter. The most preferred option is the combination of differentiation and niche strategy (more than 47 percent of the responding firms). On the other hand, cost leadership is not considered as a viable option by the majority of investigated firms. 8.6 percent of the responding firms have adopted a combination of the three generic strategies described by Porter.

Huang (2011) has carried out an examination of the business strategies in the second life-virtual (SL) market. This study takes a diagnostic approach using real-world business strategies of cost leadership, differentiation, and focus to examine whether the largest businesses are creating a defensible position in the market and what choices they have to obtain for competitive advantage. Data for this study were collected via an in-world survey in the SL market. A restricted field sample, 20 largest businesses, was selected because Linden Lab publicized only the 20 largest businesses daily in-world for residents' reference. Model consisted of 27 possible strategy combinations resulting from 3 dimensions (cost leadership, differentiation, and focus) taking 3 possible values (low, average, and high). Among the 20 largest businesses in SL, no businesses pursued a single strategic thrust, 9 businesses adopted hybrid strategies, 3 businesses were stuck in the middle, 4 businesses did not have clear strategic actions, and the rest of the businesses either did not participate in the survey or disappeared in SL when the survey was conducted in the first quarter of 2009. The study concludes that Treating hybrid strategies as a stepping stone to strategy purity may be a way to create competitive advantage.

Parnell, Lester, Long, and Koseoglu (2011) have investigated into uncertainty, strategy and performance in small-and medium sized-enterprises (SMEs): belonging to China, Turkey and the United States. The study assesses the strategy-performance relationship in SMEs. One hundred seven managers in both manufacturing and service industries on the Chinese mainland participated in the survey. In the United States, the survey instrument was administered to attendees at a national retail trade show. A total of 500 surveys were delivered to managers in Turkey, and 404 useful questionnaires were returned. Businesses in each nation were cluster analyzed (Ward's method) along the individual cost, focus, and differentiation items to generate strategic groups. The optimal number of clusters employed in each nation was the one that produced the most groups with different conceptual definitions. Mean strategy, performance, and uncertainty factor scores for each cluster, as well as ANOVA results were testing the significance of differences among the groups. According to its findings, In China and Turkey, a single strategic group combines cost leadership, differentiation, and focus strategies. Businesses in these groups reported the *highest* levels of market competitive and technological uncertainty. In the United States, two strategic groups combined cost leadership and differentiation, one of which also included a focus orientation. The low cost-differentiation-focus group scored the highest among six groups along market and technological uncertainty and second highest along with competitive uncertainty. The low cost-differentiation (no focus) group scored the highest along technological uncertainty and third along with market and competitive uncertainty.

Santos-Vijande, Lopez-Sanchez, and Trespacios (2011) have examined how organizational learning affects a firm's flexibility, competitive strategy, and performance. One hundred eighty one Spanish firms were taken as a sample. Structural equation modelings (SEM) were used to evaluate the casual links that the research model depicts. It was measured organizational learning, strategic flexibility differentiation strategy, cost leadership strategy, customer performance and business performance. This study shows that organizations which process systematic flexibility are in a better position to implement both cost leadership and differentiation strategy. Both cost leadership and differentiation strategy have a positive and significant impact on customer performance, differentiation strategy exerts a positive, direct influence on business performance, unlike the cost leadership strategy which does not influence

business performance, even though prior studies describe support for a positive link between the cost leadership strategy and various measures of business performance.

Bryan, *et al.* (2013) have critically examined on bankruptcy risk, productivity and firm strategy. The study looks at the relationship between productivity, firm strategy and bankruptcy risk. This study uses publicly available data from the Compustat database from 1993-2006 and contains 17,636 firm year observations. Factor analyses have been used for reducing the variables and regression analysis for measuring firm performance. The results indicate that productivity has a positive effect on lowering bankruptcy risk, thus higher productivity leads to lower bankruptcy risk. Loss firms and firms with high leverage have higher bankruptcy risk and large firms and firms with higher liquidity at their disposal have lower risk of bankruptcy. Bankruptcy risk has decreased due to organization's following of generic strategies of either cost leadership or differentiation. The study also brings to light the mediating effect of productivity in the relationship between strategy and bankruptcy risk.

Salvou (2013) has examined hybrid strategies in Greece. It has investigated empirically whether a hybrid, compared with other forms of competitive advantage, contributes to better business performance. The population of this research study consists of firms located in Attica (the area around Athens, which is the capital of Greece). Letters referring to the scope of the research study and requesting participation were sent to firms by fax. Firms that provided positive responses were also contacted by phone call to arrange the data collection procedure. Of the 200 firms contacted, 117 agreed to cooperate (58.5 percent response rate), and these firms constituted the sample of the present study. Data were collected by a structured questionnaire through personal interviews with top management. However, 12 questionnaires were deemed unusable due to missing data on key constructs. Based on 105 food manufacturing firms in Greece, a European Union (EU) member state, this study performs a factor analysis, a cluster analysis and an analysis of variance. This study indicates evidence in favor of the hybrid as the best-performing form of competitive advantage for Greek food firms. Specifically, the findings show pure (the cost-based nichers: 36 firms), combined (the hybridists: 49 firms) and stuck-in-the-middle (the confused strategists: 20 firms) strategic alternatives that differ in terms of performance.

V. Review of major studies in Nepalese context.

There are some studies undertaken in the Nepalese context. The major studies undertaken in Nepalese context with their major findings of empirical studies are provided in the table 4.5

Table 4.5
Major studies in Nepalese context

| Study | Findings |
|------------------|--|
| Dahal (1994) | Search and choice making are two dimensions of consumer's decision making process. |
| Khanal (2008) | Nepalese manufacturing organizations were focused on cost, quality and innovation strategies. Out of these, innovation strategy is better than quality and cost. |
| Chaudhary (2008) | Nepalese banks with access a greater pool of corporate strategy are likely to have better developed knowledge management strategy. |
| Shrestha (2011) | There is a little difference among this bank in terms of strategic management application. |

A study into patterns of consumer's decision making process from the perspective of purchasing high investment goods in Nepal has been conducted by Dahal (1994). It examines the patterns of consumer decision making process for high durable goods (risky and expensive) in Nepal. It focuses on the context of decision making process involved while buying a new motor cycle in Nepal. Motor cycle and scooter have been chosen as the sample products and the sample of the respondents used in this study comprises of 300 recent motorcycles/scooters buyers of Kathmandu district. Comprehensive questionnaires include questions pertaining to pattern of decision making strategies involved in various stages of decision making process and individual and situational variables likely to affect decision making process.

Factor analysis has been used to reduce the original variables into meaningful dimensions. Similarly, discriminant analysis, cluster analysis and path analysis have been used. The findings explain that decision making process exists for the buyers of high investment goods of Nepal. Search and choice making are two dimensions of consumer's decision making process. But the decision process does not seem to conform in to the pattern of decision making envisaged in decision models. Clusters of consumers significantly differ in terms of search intensely and other behavioral dimensions. Some do not search at all while others use simplifying strategy to

searching and choice making. Moreover, in terms of decision process as well as segments considerably differs from one another.

Strategic human resources management and firm performance in the context of Nepalese manufacturing organizations have been examined by Khanal (2008). This study highlights the impact of product market strategies on the relationship between strategic human resources management and firm performance. Primary data were used for this study and the data were collected through questionnaire survey. Population of this study consisted of different level manager of different companies from manufacturing sectors of Nepal. Twenty five manufacturing organizations were taken as a sample.

Descriptive statistics, Likert Scale, correlation analysis and regression analysis were used for this study. The results show that a cost reduction strategy is significantly and negatively related to firm performance i.e. profitability declines when firm focuses on being the lowest price leader. Additionally, the quality enhancement strategy is significantly and positively related to firm performance i.e. profitability grows when a firm focuses on producing the best quality product or services.

Strategic alignment of knowledge management and corporate strategy in Nepalese banking industry have been focused on the examination of the status of corporate strategy i.e. cost-leadership and differentiation in the Nepalese banking industry. This study adopted descriptive cum comparative research design. Population of this study was total Nepalese banking industries formed of public (i.e. Government and private) banking industries. Out of these, 14 (i.e. 13 public and 1 private) banks were taken as sample. Primary data were used for this study and data were collected through structure questionnaire from senior officer level employees. Descriptive statistics, Likert-scale test, correlation analysis, Mann-whitney test etc. were used for this study. The findings explain that the relationship between the knowledge management strategy and corporate strategy and differentiation and personalization strategy is positive. Thus the Nepalese banks with access a greater pool of corporate strategy are likely to have better developed knowledge management strategy (Chaudhary, 2008).

Shrestha (2011) has analyzed strategic management and corporate effectiveness of Nepalese commercial banks. It highlights the degree of strategic management practices

in the selected Nepalese organization i.e. Nepal Bank Ltd., Rastriya Banijya Bank, Nepal Investment Bank, Himalaya Bank Ltd., Nabil Bank Ltd. and Standard Chartered Bank Ltd. An exploratory cum descriptive research methodology was used in this study.

The extent of strategic management practices in the Nepalese commercial bank has been explored with the help of a questionnaire survey from the different levels of management in the concerned banks. The findings reveal that application of strategic management in the Nepalese commercial banks, overall strategic performance of all the sample banks is satisfactory. More specially, Standard Chartered Bank Limited (4.17), Nepal Investment Bank Limited (3.75), Nepal Arab Bank Limited (3.62) and Rastriya Banijya Bank Limited (3.56) have satisfactory strategic management practices. Himalaya Bank Limited (3.35) and Nepal Bank Limited (2.87) have moderately practiced strategic management. There is a little difference among these banks in terms of strategic management application.

To conclude, the study of the relationship between strategy types i.e. cost leadership, differentiation and its impact on to reduce bankruptcy risk of Nepalese enterprises are not available.

3.3 Study methodology

I. Nature and sources of data

To measure bankruptcy and firm strategy of the listed Nepalese enterprises secondary data have been used. These data have been collected from Security Board of Nepal, Nepal Stock Exchange and concerned companies i.e. selected enterprises which are mentioned in chapter one. The data, collected from 2000/01 to 2011/12, have been converted into five-year moving average.

II. Method of analysis

The following procedures and statistical tools have been used for analyzing the data:

A. Strategy measures

Balsam, *et al.* (2011) and Asdemir, *et al.* (2013) have critically looks at strategic positioning of the firms using realized indicators obtained from the firms' financial

statements. Accordingly, three variables SGA (selling, general and administrative expenses scaled by net sales), R&D (research and development expenses scaled by net sales) and MARGIN (net sales scaled by cost of goods sold) have been used to measure strategic positioning based on the differentiation dimension.

Three additional variables SCAPEX (net sales scaled by capital expenditures on property, plant and equipment) SPE (net sales scaled by net book value of plant and equipment) and EASSETS (the number of employees scaled by total assets) have been used to measure strategic positioning based on cost leadership (Asdemir *et.al*, 2013; Bryan *et.al*, 2013). These measures capture the firms' long-term strategic orientation along the dimensions of differentiation strategy and cost leadership strategy.

This study has computed the mean of the previous five years of data for each of the above four variables to capture the long-term strategic orientation of the firms and conduct a factor analysis to construct the two strategy variables, "Cost Leadership" and "Differentiation".

B. Bankruptcy risk

This study uses Altman Z-score as a measure of bankruptcy risk. Altman (1968) was the seminal contribution in the bankruptcy literature. This study introduced the first bankruptcy evaluation model using multiple DA (discriminant analysis) to discriminate between bankrupt and non-bankrupt firms. The statistical DA uses a linear combination of independent variables to assign a score, referred to as the "Z-score" to a particular firm. The summary of Z-score provided by the model represents a firm's risk of bankruptcy. It is computed as:

$$Z = 1.2(WC) + 1.4(RE) + 3.3(EBIT) + 0.6(MVE) + 0.999(S)$$

Where:

WC = working capital scaled by total assets, RE = retained earnings scaled by total assets, EBIT = earning before interest and taxes scaled by total assets, MVE = market value of equity scaled by total liabilities and S = sales scaled by total assets.

WC is included as a measure of liquidity. RE is cumulative profitability while providing implicit information about the age of the firm. EBIT is, naturally, a measure

of profitability. MVE is a measure of leverage, and S represents the sales-generating ability of the firm's assets. Recently, Altman (1993) has extended his original idea on the default/non-default classification into various credit rating issues such as credit rating migration (Altman & Kao, 1992a.b) and credit rating of agencies (Altman & Rijken, 2004). This study uses this alternative specification of the Z-score to evaluate the robustness of the results.

C. Firm strategy and bankruptcy risk

The two-strategy constructs are continuous variables which are orthogonal to each other. Thus, each firm will have both a differentiation score and a cost leadership score. In other words, this study captures both dimensions of differentiation and cost leadership for each firm because, consistent with the views of Porter (1980, 1985) and others, the two strategies are not viewed as two ends of the same continuum, but rather as two distinct platforms that can be used in isolation or in combination with each other (which is captured by having two strategy constructs, one for differentiation and the another for cost leadership, both of which are continuous variables). Thus, it focuses on to compete based on either differentiation or cost leadership or choose to compete based on both strategies.

D. Descriptive statistics

For describing the various characteristics and dimensions of quantitative data, different tools of descriptive statistics are used. Mean, median, maximum value, minimum value and standard deviation are used for analysis of secondary data.

E. Correlation analysis

In correlation analysis, the strength of linear relationship among the different variables is measured. Measurement of the strength of relationship between the two quantitative variables, X and Y is usually carried out by simple correlation coefficient, denoted by 'r'. Correlation analysis is useful in exploratory data analysis.

It provides some guidelines for selecting independent variables in multiple regression analysis. In correlation analysis in this study, different variables such as Altman Z-score, differentiation strategy, cost leadership strategy, leverage, market capitalization, cash holdings to total assets and an indicator of loss firm's variables are analyzed.

F. Regression analysis

To examine the relationship between the strategic positioning of firms and bankruptcy risk of selected enterprises, this study estimate the following model:

Empirical model

To evaluate research hypothesis, the effect of differentiation and cost leadership strategy to reduce bankruptcy risk of multiple regression analysis is used which is given below:

$$\text{AltmanZ}_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{CL}_{i,t} + \beta_3 \text{Leverage}_{i,t} + \beta_4 \text{LnMV}_{i,t} + \beta_5 \text{Cash}_{i,t} + \beta_6 \text{Loss}_{i,t} + \varepsilon_{i,t} \dots (\text{Bryan et.al, 2013})$$

Where $\text{AltmanZ}_{i,t}$ represents the bankruptcy risk of a firm i in a period t calculated based on Altman (1968). A lower value of Altman Z denotes a higher level of bankruptcy risk. $\text{Diff}_{i,t}$ and $\text{CL}_{i,t}$ represent the strategic positioning of a firm i in a period t constructed based on Balsam, *et al.* (2011). Based on hypothesis five, this study expects the coefficients on the two strategy variables α_1 and α_2 to be positive and significant, indicating that there is lower risk of bankruptcy for firms which are able to successfully pursue either of the strategy.

Leverage ratio ($\text{Leverage}_{i,t}$), calculated as ratio of book value of long and short term debt to total assets of a firm i in a period t . Firm size ($\text{LnMV}_{i,t}$) calculated as the natural logarithm of market capitalization at the end of the fiscal year of a firm i in a period t . Liquidity ($\text{Cash}_{i,t}$) calculated as the ratio of cash holdings to total assets of a firm i in a period t and an indicator of loss firms ($\text{Loss}_{i,t}$) which is set to 1 if the firm has a loss during the year, otherwise 0 of a firm i in a period t .

3.4 Data analysis

I. Structure of factors effecting bankruptcy risk

Different financial tools are used to measure bankruptcy risk in this study. These are Altman Z -score, leverage, cash holdings to total assets, market value of equity share.

A. Altman Z-score

The computed values of the Altman Z-score for the selected enterprises are presented in table 4.6. It shows the value of Altman Z-score of 10 manufacturing industries and 3 hotel industries of 12 fiscal years as well as firm-wise average value of Altman Z-score of all 12 fiscal years and their standard deviations. Average Altman Z-score vary widely from one enterprise to another as well as year to year.

Average Altman Z-score is the largest for UNL (4.915) followed by FHL (2.424), BNTL (1.962), NLOL (1.826), BNL (1.783), SHL (1.723), RJML (1.566), NBBUL (1.536), HDL (1.079), OHL (0.545), SSML (0.386), GRUL (0.26) and TRHL (0.029). The value of Altman Z-score varies widely within the individual enterprises as well. It varies from 0.567 to 3.029 for BNL, 1.074 to 2.645 for BNTL, 2.717 to 7.26 for UNL, 0.734 to 2.518 for NBBUL, -0.346 to 0.817 for GRUL, 0.476 to 4.546 for FHL, -0.508 to 0.914 for SSML, -0.062 to 2.654 for HDL, 0.728 to 2.102 for RJML, 1.463 to 2.428 for NLOL, 0.002 to 1.088 for OHL, -0.038 to 3.341 for SHL and -0.542 to 0.811 for TRHL.

Table 4.6 shows that largest average score is for fiscal year 2009/10 (2.056), 11/12 (2.015), 08/09 (1.905), 10/11 (1.896), 07/08 (1.696), 06/07 (1.522), 00/01 (1.474), 03/04 (1.305), 01/02 (1.195), 04/05 (1.169), 05/06 (1.164), 02/03 (1.095). Weighted average value of Altman Z-score of 13 enterprises of 12 fiscal years is 1.541. Result of standard deviation which is computed on the basis of average value of Altman Z-score of 12 fiscal years of individual company is largest for UNL (1.463), followed by SHL (1.133), FHL (1.071), HDL (0.776), BNL (0.656), NBBUL (0.538), BNTL (0.469), SSML (0.466), TRHL (0.46), OHL (0.442), RJML (0.398), GRUL (0.362), NLOL (0.262). Similarly, the value of standard deviation which is the result on the basis of average of total assets of 13 enterprises of each fiscal years is largest for fiscal year 2000/01 (1.886), followed by 09/10 (1.716), 08/09 (1.65), 2011/12 (1.536), 2010/11 (1.521), 07/08 (1.508), 06/07 (1.416), 01/02 (1.237), 05/06 (1.057), 03/04 (1.047), 04/05 (1.018) and 02/03 (0.99).

Table 4.6
Altman Z-score of the selected firms for the period of 2000/01 to 2011/12

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------|-------|
| BNL | 1.684 | 1.697 | 1.744 | 2.036 | 1.734 | 1.094 | 0.567 | 1.437 | 1.518 | 2.188 | 2.669 | 3.029 | 1.783 | 0.656 |
| BNTL | 1.98 | 1.873 | 1.82 | 1.958 | 1.392 | 1.074 | 1.495 | 2.455 | 2.645 | 2.449 | 2.233 | 2.169 | 1.962 | 0.469 |
| UNL | 7.26 | 4.177 | 3.169 | 3.411 | 2.717 | 3.733 | 4.766 | 5.352 | 6.429 | 5.95 | 6.007 | 6.011 | 4.915 | 1.463 |
| NBBUL | 1.321 | 1.37 | 0.734 | 2.113 | 2.282 | 1.805 | 2.518 | 1.072 | 1.385 | 1.344 | 1.024 | 1.464 | 1.536 | 0.538 |
| GRUL | 0.425 | 0.388 | 0.45 | 0.184 | 0.205 | 0.1 | -0.008 | -0.346 | 0.592 | 0.625 | 0.817 | -0.318 | 0.26 | 0.362 |
| FHL | 0.476 | 0.925 | 1.942 | 2.163 | 1.931 | 2.403 | 2.751 | 3.313 | 2.915 | 4.546 | 2.958 | 2.765 | 2.424 | 1.071 |
| SSML | 0.914 | 0.756 | 0.518 | 0.716 | 0.533 | 0.654 | -0.508 | 0.486 | 0.462 | -0.296 | -0.25 | 0.648 | 0.386 | 0.466 |
| HDL | 0.113 | -0.062 | 0.352 | 0.654 | 0.922 | 1.013 | 1.381 | 1.267 | 1.061 | 1.7 | 1.887 | 2.654 | 1.079 | 0.776 |
| RJML | 1.593 | 1.669 | 1.539 | 1.566 | 2.088 | 0.728 | 1.448 | 1.11 | 1.332 | 1.614 | 2 | 2.102 | 1.566 | 0.398 |
| NLOL | 1.68 | 2.428 | 1.696 | 1.626 | 1.804 | 1.724 | 2.198 | 1.838 | 1.969 | 1.765 | 1.463 | 1.717 | 1.826 | 0.262 |
| OHL | 0.254 | 0.045 | 0.006 | 0.263 | 0.002 | 0.325 | 0.594 | 0.937 | 1.039 | 1.088 | 1.032 | 0.957 | 0.545 | 0.442 |
| SHL | 1.715 | 0.814 | 0.753 | 0.572 | -0.038 | 0.749 | 2.344 | 2.885 | 3.22 | 3.341 | 2.139 | 2.181 | 1.723 | 1.133 |
| TRHL | -0.256 | -0.542 | -0.488 | -0.293 | -0.379 | -0.267 | 0.241 | 0.24 | 0.204 | 0.408 | 0.674 | 0.811 | 0.029 | 0.46 |
| Mean | 1.474 | 1.195 | 1.095 | 1.305 | 1.169 | 1.164 | 1.522 | 1.696 | 1.905 | 2.056 | 1.896 | 2.015 | 1.541 | |
| S.D. | 1.886 | 1.237 | 0.99 | 1.047 | 1.018 | 1.057 | 1.416 | 1.508 | 1.65 | 1.716 | 1.521 | 1.536 | | |

Source: Annual audit report of individual company of each year

B. Leverage

Leverage is computed as the percentage of sum of long term and short term debt on total assets. The computed values of the leverage for the selected enterprises which are 10 manufacturing firms and 3 hotel industries individually of 12 fiscal years from 2000/01 to 2011/12 are presented in table 4.7. The average values in the table indicate that the ratio of long and short term debt to total assets is largest for GRUL (102.7 percent) followed by OHL (88.2 percent), SSML (65.6 percent), NBBUL (55.2 percent), TRHL (46.4 percent), RJML (34.4 percent), NLOL (32.4 percent), HDL (32.3 percent), SHL (19.4 percent), BNTL (16.6 percent), BNL (10 percent), UNL (1.6 percent) and FHL (0.5 percent). The percentage of leverage varies widely within the individual enterprises.

It varies from 5 percent to 29.7 percent for BNL, 8.1 percent to 24.3 percent for BNTL, 19.1 percent in 2000/01 and 0 percent in remaining years for UNL, 39.8 percent to 76.8 percent for NBBUL, 79.3 percent to 119.5 percent for GRUL, 5.9 and 0.5 percent in beginning and ending years and remaining years is 0 for FHL, 49.4 percent to 95.8 percent for SSML, 7.3 to 47.7 percent for HDL, 19.6 percent to 61.5 percent for RJML, 20.9 percent to 59.2 percent for NLOL, 64.3 percent to 133.7 percent for OHL, 2.8 percent to 38.6 percent for SHL and 23.9 percent to 61.8 percent for TRHL.

Table 4.7 shows that the largest average percent of average ratio of sum of long term and short term debt to total assets for fiscal year 2007/08 (44.4 percent), followed by 03/04 (42.2 percent), 06/07 (42 percent), 08/09 (41.9 percent), 05/06 (40.7 percent), 04/05 (38.7 percent), 09/10 (38.3 percent), 02/03 (36.8 percent), 2010/11 (36.8 percent), 00/01 (36.5 percent), 11/12 (36.1 percent) and 01/02 (31.9 percent). Weighted average percentage of sum of long and short term debt to total assets of 13 enterprises of 12 fiscal years is 38.9.

Result of standard deviation which is computed on the basis of average value of percentage of sum of long and short term debt on total assets of 12 fiscal years of individual firm is largest for OHL (22.1 percent), followed by SSML (14.7 percent), HDL (12.7 percent), SHL (12.5 percent), GRUL (12.2 percent), TRHL (11.9 percent), NBBUL (11.6 percent), RJML (11.5 percent), NLOL (9.7 percent), BNL (6.8 percent), UNL (5.5 percent), BNTL (4.6 percent) and FHL (1.7 percent). Similarly, the value of standard deviation which is the result on the basis of average percentage of sum of long and short term debt on total assets of 13 enterprises of each fiscal year is largest for fiscal 2007/08 (40.1 percent) followed by 06/07 (39.8 percent), 08/09 (35.8 percent), 11/12 (35.8 percent), 09/10 (35.3 percent), 10/11(34.2 percent), 04/05 (32.4 percent), 03/04 (32.3 percent), 05/06 (32.2 percent), 02/03 (29.8 percent), 01/02 (28.2 percent) and 00/01 (26.6 percent).

Table 4.7**Ratio of long term and short term debt to total assets in percentage of the selected firms for the period of 2000/01 to 2011/12**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 5 | 5.3 | 5.6 | 6.5 | 6.7 | 12.1 | 12.1 | 29.7 | 12.4 | 9.5 | 9.5 | 5.4 | 10 | 6.8 |
| BNTL | 8.1 | 13.1 | 13.2 | 13.9 | 14.9 | 16 | 14.5 | 18.6 | 24.3 | 21.6 | 21.6 | 19.7 | 16.6 | 4.6 |
| UNL | 19.1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.6 | 5.5 |
| NBBUL | 50.7 | 50.4 | 48.2 | 48.2 | 46.6 | 39.8 | 47 | 54.7 | 63.3 | 61.8 | 76.8 | 74.5 | 55.2 | 11.6 |
| GRUL | 79.3 | 82.7 | 92.7 | 100.6 | 104 | 107.3 | 111.9 | 119.5 | 109.1 | 102 | 109 | 113.8 | 102.7 | 12.2 |
| FHL | 5.9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.5 | 0.5 | 1.7 |
| SSML | 67 | 63.5 | 57.1 | 57.5 | 50.8 | 60.1 | 49.4 | 60.9 | 93.1 | 95.8 | 61.1 | 70.4 | 65.6 | 14.7 |
| HDL | 43 | 40.2 | 41.6 | 47.7 | 42.6 | 42 | 34.1 | 28.5 | 20.7 | 19.9 | 20 | 7.3 | 32.3 | 12.7 |
| RJML | 28.3 | 24.7 | 25.3 | 61.5 | 19.6 | 30.7 | 35.6 | 35 | 37.9 | 27.3 | 38.5 | 48.5 | 34.4 | 11.5 |
| NLOL | 59.2 | 20.9 | 29.1 | 30.7 | 30.2 | 40.4 | 33.4 | 28.8 | 33.6 | 26.7 | 25 | 30.9 | 32.4 | 9.7 |
| OHL | 67.9 | 75.6 | 84.4 | 88.8 | 89.8 | 90.6 | 133.7 | 130.3 | 82.6 | 76.3 | 74.3 | 64.3 | 88.2 | 22.1 |
| SHL | 6.8 | 15 | 29.4 | 31.6 | 38.6 | 33.1 | 26.9 | 22.2 | 14.2 | 8.8 | 3.3 | 2.8 | 19.4 | 12.5 |
| TRHL | 33.5 | 23.9 | 52.3 | 61.8 | 59.8 | 56.4 | 47.5 | 49.3 | 53.3 | 47.9 | 39.5 | 31.3 | 46.4 | 11.9 |
| Mean | 36.5 | 31.9 | 36.8 | 42.2 | 38.7 | 40.7 | 42 | 44.4 | 41.9 | 38.3 | 36.8 | 36.1 | 38.9 | |
| S.D. | 26.6 | 28.2 | 29.8 | 32.3 | 32.4 | 32.2 | 39.8 | 40.1 | 35.8 | 35.3 | 34.2 | 35.8 | | |

Source: Annual audit report of individual company of each year

C. Cash holdings to total assets

Cash holding to total assets is computed as the percentage of ending cash balance on total assets. The computed values of cash holdings to total assets for the selected enterprises which are 10 manufacturing firms and 3 hotel industries individually of 12 fiscal years from 2000/01 to 2011/12 are presented in table 4.8. The average values in the table indicate that the ratio of cash holdings to total assets is largest for UNL (18.1 percent) followed by NLOL (11.6 percent), GRUL (7.8 percent), BNTL (5.4 percent), NBBUL (4.9 percent), SHL (3.6 percent), BNL (1.3 percent), OHL (1.2 percent), TRHL (1.2 percent), SSML (1.1 percent), FHL (0.7 percent), HDL (0.6 percent) and RJML (0.4 percent).

The percentage of cash holdings to total assets varies widely within the individual enterprises. It varies from near to 0 percent to 3.4 percent for BNL, 2.4 percent to 12.4 percent for BNTL, 0.8 percent to 41.7 percent UNL, 0.6 percent to 12.8 percent for NBBUL, 3 percent to 18.2 percent for GRUL, 0.1 percent to 2.9 percent for FHL, 0.2 percent to 4.3 percent for SSML, 0.1 percent to 2.5 percent for HDL, 0.2 percent to 1.2 percent for RJML, 0.6 percent to 63.9 percent for NLOL, 0.6 percent to 2.7 percent for OHL, 1.4 percent to 7.4 percent for SHL and 0.3 percent to 2.7 percent for TRHL.

Average percentage of cash holdings to total assets of 13 firms is also presented in table 4.8 in different fiscal years separately. Result is different in different fiscal years. Highest result is in fiscal year 2008/09 (10.3 percent), followed by 09/10 (8.6 percent), 11/12 (5.2 percent), 03/04 (5.1 percent), 02/03 (4.4 percent), 04/05 (4.4 percent), 06/07 (3.4 percent), 10/11 (2.8 percent), 05/06 (2.7 percent), 07/08 (2.6 percent), 01/02 (2.5 percent) and 00/01 (1.4 percent). Weighted average percentage of cash holdings to total assets of 13 enterprises of 12 fiscal years is 4.45.

Result of standard deviation which is computed on the basis of average value of percentage of cash holdings to total assets of 12 fiscal years of individual company is largest for NLOL (23.2 percent), followed by UNL (15.6 percent), GRUL (5.4 percent), NBBUL (4.4 percent), BNTL (2.9 percent), SHL (1.9 percent), BNL (1.2 percent), SSML (1.1 percent), FHL (0.9 percent), TRHL (0.9 percent), HDL (0.6 percent), OHL (0.6 percent) and RJML (0.3 percent). Similarly, the value of standard deviation which is the result on the basis of average percentage of cash holdings to total assets of 13 enterprises of each fiscal year is largest for fiscal 2008/09 (18.5) followed by 09/10 (15.7 percent), 03/04 (11.3 percent), 02/03 (10.9 percent), 04/05 (10.9 percent), 11/12 (5.8 percent), 06/07 (3.7 percent), 01/02 (3.2 percent), 10/11 (3 percent), 07/08 (2.6 percent), 00/01 (2 percent) and 05/06 (1.8 percent).

Table 4.8**Ratio of cash holdings to total assets in percentage of the selected firms for the period of 2000/01 to 2011/12 (percent)**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------|------|
| BNL | 1.3 | 2.8 | 0.5 | 1.6 | 0.2 | 3.4 | 0 | 0.2 | 0.3 | 2 | 0.8 | 2.5 | 1.3 | 1.2 |
| BNTL | 2.5 | 6.8 | 3.4 | 8.6 | 2.4 | 5.1 | 5.1 | 4.7 | 6.3 | 3.1 | 4.3 | 12.4 | 5.4 | 2.9 |
| UNL | 0.8 | 10.9 | 40.4 | 41.7 | 40.3 | 6.1 | 10.3 | 9.1 | 31.5 | 11.8 | 3.8 | 10.3 | 18.1 | 15.6 |
| NBBUL | 0.8 | 0.6 | 1.6 | 4.6 | 2.3 | 3 | 12 | 2.2 | 3.8 | 12.8 | 4.2 | 10.4 | 4.9 | 4.4 |
| GRUL | 7.7 | 4.2 | 4.6 | 3.2 | 4.1 | 4.4 | 3 | 5.1 | 17.6 | 10.9 | 11.1 | 18.2 | 7.8 | 5.4 |
| FHL | 0.1 | 0.2 | 0.4 | 0.1 | 1.6 | 1.1 | 2.9 | 1.6 | 0.3 | 0.3 | 0.1 | 0.1 | 0.7 | 0.9 |
| SSML | 0.7 | 0.7 | 0.2 | 0.8 | 0.5 | 0.4 | 1.5 | 4.3 | 1.2 | 0.3 | 1.1 | 1.9 | 1.1 | 1.1 |
| HDL | 0.1 | 0.1 | 0.3 | 0.3 | 0.1 | 2.5 | 0.6 | 0.4 | 0.4 | 0.6 | 0.7 | 0.6 | 0.6 | 0.6 |
| RJML | 0.2 | 1.2 | 0.3 | 0.3 | 0.4 | 0.2 | 0.4 | 0.2 | 0.2 | 0.6 | 0.2 | 0.2 | 0.4 | 0.3 |
| NLOL | 1.6 | 1.1 | 1.6 | 0.6 | 2.3 | 2.2 | 1.4 | 2.4 | 63.9 | 58.3 | 2.4 | 1.2 | 11.6 | 23.2 |
| OHL | 0.6 | 0.6 | 0.9 | 1.1 | 0.7 | 1.5 | 2.7 | 0.8 | 1 | 2 | 1.4 | 1.1 | 1.2 | 0.6 |
| SHL | 1.4 | 2.3 | 3.1 | 2.8 | 2.4 | 3.9 | 1.6 | 2.1 | 5.7 | 7.4 | 4.5 | 5.4 | 3.6 | 1.9 |
| TRHL | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 | 1 | 2.7 | 1.1 | 1.1 | 1.4 | 2.3 | 2.7 | 1.2 | 0.9 |
| Mean | 1.4 | 2.5 | 4.4 | 5.1 | 4.4 | 2.7 | 3.4 | 2.6 | 10.3 | 8.6 | 2.8 | 5.2 | 4.45 | |
| S.D. | 2 | 3.2 | 10.9 | 11.3 | 10.9 | 1.8 | 3.7 | 2.6 | 18.5 | 15.7 | 3 | 5.8 | | |

Source: Annual audit report of individual company of each year

D. Market value of equity share

Table 4.9 presents the market value of equity share of 13 firms in different fiscal years from 2000/01 to 2011/12. It also reveals the average value of market value per share of 12 fiscal years of 13 firms individually and value of standard deviation of each firm. The Average market value of 13 individual firms is not identical. Average market value is largest for UNL (Rs. 2781 million), followed by BNL (Rs. 1593 million), SHL (Rs. 1205 million), TRHL (Rs. 841 million), BNTL (Rs. 757 million), OHL (Rs. 441 million), HDL (Rs. 365 million), SSML (Rs. 283 million), GRUL (Rs. 154 million), RJML (Rs. 143 million), NLOL (Rs. 70 million), FHL (Rs. 19 million) and NBBUL (Rs. 15 million).

The market value of share varies widely within the individual enterprises. It varies from Rs. 974 million to Rs. 3294 million for BNL, Rs. 484 million to Rs. 1210 million for BNTL, Rs. 1040 million to Rs. 5800 million for UNL, Rs. 21 million from 2000/01 to 2002/03 after that Rs. 13 million for NBBUL, Rs. 146 million to Rs. 314 million for GRUL, Rs. 19 million of all years for FHL, Rs. 131 million to Rs. 299 million for SSML, Rs. 337 to Rs. 386 million for HDL, Rs. 29 million to Rs. 183 million for RJML, Rs. 50 million to Rs. 118 million for NLOL, Rs. 208 million to Rs. 959 million for OHL, Rs. 435 million to Rs. 2629 million for SHL and Rs. 290 million to Rs. 2504 million for TRHL.

Average percentage of market value of equity share of 13 firms is also presented in the table 4.9 in different fiscal years separately. Highest result is for fiscal year 2011/12 (Rs. 1219 million), followed by 10/11 (Rs. 1072 million), 09/10 (Rs. 874 million), 08/09 (Rs. 849 million), 07/08 (Rs. 828 million), 06/07 (Rs. 601 million), 00/01 (Rs. 495 million), 05/06 (Rs. 449 million), 01/02 (Rs. 438 million), 04/05 (Rs. 411 million), 02/03 (Rs. 388 million) and 03/04 (Rs. 375 million). This table shows that the trend after 2006/07 of market value of equity share is increasing trend. Weighted average market value of equity share of 13 enterprises of 12 fiscal years is Rs. 667 million.

Result of standard deviation which is computed on the basis of average value of market value of equity share of 12 fiscal years of individual company is largest for UNL (Rs. 1577 million), followed by BNL (Rs. 827 million), TRHLL (Rs. 741 million), SHL (Rs. 706 million), OHL (Rs. 279 million), BNTL (Rs. 266 million), RJML (Rs. 69 million), GRUL (Rs. 57 million), SSML (Rs. 48 million), NLOL (Rs. 21 million), HDL (Rs. 12 million), NBBUL (Rs. 4 million) and FHL (nil).

Similarly, the value of standard deviation which is the result on the basis of average market value of equity share of 13 enterprises of each fiscal year is largest for fiscal 2011/12 (Rs. 1723 million) followed by 10/11 (Rs. 1420 million), 09/10 (Rs. 1146 million), 08/09 (Rs. 1097 million), 07/08 (Rs. 1072 million), 06/07 (Rs. 832 million), 05/06 (Rs. 612 million), 01/02 (Rs. 460 million), 00/01 (Rs. 456 million), 04/05 (Rs. 453 million), 02/03 (Rs. 417 million) and 03/04 (Rs. 406 million).

Table 4.9**Market values of the selected firms for the period of 2000/01 to 2011/12 (in million rupees)**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 1364 | 1364 | 1364 | 1080 | 1238 | 974 | 974 | 1364 | 1364 | 1364 | 3370 | 3294 | 1593 | 827 |
| BNTL | 859 | 653 | 526 | 545 | 500 | 484 | 484 | 847 | 898 | 881 | 1197 | 1210 | 757 | 266 |
| UNL | 1151 | 1243 | 1040 | 1289 | 1502 | 2302 | 3130 | 3775 | 3913 | 3820 | 4402 | 5800 | 2781 | 1577 |
| NBBUL | 21 | 21 | 21 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 15 | 4 |
| GRUL | 314 | 123 | 80 | 107 | 191 | 149 | 149 | 146 | 146 | 146 | 146 | 146 | 154 | 57 |
| FHL | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 0 |
| SSML | 131 | 297 | 297 | 299 | 297 | 297 | 297 | 297 | 297 | 297 | 297 | 297 | 283 | 48 |
| HDL | 373 | 373 | 358 | 358 | 358 | 337 | 376 | 358 | 371 | 367 | 367 | 386 | 365 | 12 |
| RJML | 183 | 29 | 29 | 29 | 181 | 181 | 181 | 181 | 181 | 181 | 181 | 181 | 143 | 69 |
| NLOL | 118 | 97 | 81 | 71 | 71 | 71 | 71 | 51 | 51 | 51 | 51 | 50 | 70 | 21 |
| OHL | 241 | 238 | 243 | 208 | 248 | 218 | 426 | 919 | 959 | 746 | 393 | 457 | 441 | 279 |
| SHL | 913 | 870 | 652 | 565 | 435 | 478 | 1096 | 2052 | 1980 | 2629 | 1298 | 1486 | 1205 | 706 |
| TRHL | 744 | 372 | 327 | 290 | 298 | 320 | 599 | 740 | 849 | 849 | 2199 | 2504 | 841 | 741 |
| Mean | 495 | 438 | 388 | 375 | 411 | 449 | 601 | 828 | 849 | 874 | 1072 | 1219 | 667 | |
| S.D. | 456 | 460 | 417 | 406 | 453 | 612 | 832 | 1072 | 1097 | 1146 | 1420 | 1723 | | |

Source: Annual audit report of individual company of each year

II. Descriptive statistics

Table 4.10 presents descriptive statistics of Altman Z-score, strategic variables of differentiation and cost leadership and other controlled variables which are leverage, market capitalization and cash holdings to total assets.

Table 4.10
Descriptive statistics

| | Unit | N | Mean | Median | Std. Deviation | Minimum | Maximum |
|-------------------------|--------|-----|----------|----------|----------------|----------|----------|
| Diff _{i,t} | Ratio | 104 | 0 | -0.23225 | 1 | -1.19574 | 2.71035 |
| CL _{i,t} | “ | 104 | 0 | -0.27516 | 1 | -1.61781 | 7.5873 |
| Z _{i,t} | “ | 104 | 1.272148 | 1.284654 | 0.770962 | 0.14012 | 4.0287 |
| Leverage _{i,t} | “ | 104 | 0.000398 | 0.00033 | 0.000322 | 0 | 0.0011 |
| LnMV _{i,t} | Rupees | 104 | 19.36985 | 19.64064 | 1.540239 | 16.4044 | 22.19161 |
| Cash _{i,t} | Ratio | 104 | 4.78E-05 | 1.62E-05 | 7.19E-05 | 1.8E-06 | 0.000301 |

The first two variables are the strategy measures such as differentiation and cost leadership. The mean and standard deviation of these two measures are 0 and 1 respectively. Difference between maximum value and minimum value of cost leadership strategy is greater than that of differentiation strategy. Mean and median value of dependent variable Altman Z-score is 1.272148 and 1.284654 respectively.

III. Correlation analysis

Table 4.11 tabulates the correlation statistics between dependent variable Altman Z-score, two main independent strategic variables i.e. differentiation strategy and cost leadership strategy and other four independent controlled variables i.e. leverage, market capitalization, cash holdings to total assets and loss which is presented in the table 4.11.

Table 4.11
Correlation analysis

| | Diff _{i,t} | CL _{i,t} | Z _{i,t} | Leverage _{i,t} | LnMV _{i,t} | Cash _{i,t} | Loss _{i,t} |
|-------------------------|---------------------|-------------------|------------------|-------------------------|---------------------|---------------------|---------------------|
| Diff _{i,t} | 1 | | | | | | |
| CL _{i,t} | -.343* | 1 | | | | | |
| Z _{i,t} | .270* | 0 | 1 | | | | |
| Leverage _{i,t} | -.540* | 0.089 | -0.138 | 1 | | | |
| LnMV _{i,t} | .414* | .334* | -.229** | -0.163*** | 1 | | |
| Cash _{i,t} | .517* | -0.094 | .598* | -0.183*** | 0.113 | 1 | |
| Loss _{i,t} | -.508* | .265* | -.302* | .355* | -.205** | -.322* | 1 |

Note: * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels Pearson correlation

Table 4.11 shows that there is a significant relation between independent variable differentiation strategy with all other variables at 1 percent level. Differentiation strategy shows low degree of positive relation with Altman Z-score. Cost leadership and market capitalization as well as cost leadership and loss shows low degree of positive correlation at 1 percent LOS.

IV. Regression analysis

Different stepwise multiple regressions have been analyzed to measure the impact of differentiation strategy and cost leadership strategy on bankruptcy risk including the impact of different controlled variables which are leverage, market capitalization, cash holdings to total assets and loss. Measurement of impact of differentiation and cost leadership strategy including different controlled variable leverage, cash holdings to total assets, dummy variables loss on bankruptcy risk, following multiple regression models are used:

$$Z_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{CL}_{i,t} + \beta_3 \text{Leverage}_{i,t} + \varepsilon_{i,t} \dots (1)$$

$$Z_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{CL}_{i,t} + \beta_3 \text{Leverage}_{i,t} + \beta_4 \text{Cash}_{i,t} + \varepsilon_{i,t} \dots (2)$$

$$Z_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{CL}_{i,t} + \beta_3 \text{Leverage}_{i,t} + \beta_4 \text{Loss}_{i,t} + \varepsilon_{i,t} \dots (3)$$

$$Z_{i,t} = \alpha_0 + \beta_1 \text{Diff}_{i,t} + \beta_2 \text{CL}_{i,t} + \beta_3 \text{Leverage}_{i,t} + \beta_4 \text{Cash}_{i,t} + \beta_5 \text{Loss}_{i,t} + \varepsilon_{i,t} \dots (4)$$

Before dependent variable is regressed on independent variables, Glejser test has been used for detecting heteroscedasticity problem and which is found. Dependent and all independent variables have been divided by unstandardized predicted variables due to heteroscedasticity problem. The computed values of the regression equations for the selected enterprises are presented in table 4.12.

This table presents that the F-ratio of all regression models are statistically significant at one percent LOS. Value of DW of each model is approved that all models are free from auto correlation problem. Value of VIF of all independent variables of each regression model is approved that all regression equations are free from multicollinearity problem. In the perspective of regression model first, value of R^2 indicates that this regression model explains 24.7 percent area. Coefficient value of all independent variables except cost leadership is statistically significant at 1 percent level. There is an inverse relation between differentiation strategy and bankruptcy risk. Hence, firms' pursuing higher degrees of differentiation strategy does not

reduce bankruptcy risk. It is just opposite as per prior expectation i.e. it does not support hypothesis five.

Regarding the regression result second, coefficient value of leverage and differentiation strategy is statistically significant at 1 percent and 5 percent level. It is observed that the explanatory power of the R^2 is 0.19 indicating that 19 percent variation in the level of satisfaction is explained by variation of the independent variables included in the model. The coefficient value of differentiation strategy indicates that there is inverse relationship between bankruptcy risk and differentiation strategy i.e. pursuing higher degree of differentiation strategy increases bankruptcy risk. Hence, it is just opposite as per prior expectation i.e. hypothesis five is rejected.

Table 4.12 presents the result of regression model third; value of R^2 explains that the model is responsible for 39.4 percent of the variability in the measurement of bankruptcy risk. Coefficient value of independent variable differentiation strategy and leverage is significant at 1 percent and 10 percent level respectively. Coefficient value of differentiation strategy indicates that pursuing higher degrees of differentiation strategy increases risk i.e. result is just opposite as per prior expectation of hypothesis five and result is insignificant with hypothesis six.

Result of regression model fourth presents that the explanatory power of the model is reasonably low given as the R^2 is estimated at 25.3 percent. Coefficient value of independent variables of leverage and differentiation strategy is statistically significant at 1 percent and 5 percent level respectively. Coefficient value of differentiation strategy is negative. Hence, it is approved that firm pursuing higher level of differentiation strategy increases bankruptcy risk and it does not support hypothesis five. In the perspective of hypothesis six, coefficient value of cost leadership strategy is insignificant.

Table 4.12

Regression result of Altman Z-score on differentiation strategy, costleadership strategy and controlled variables like leverage, market capitalization, cash holdings to total assets and loss of each firm i in a year t.

| Models | Model 1 | | | | Model 2 | | | | Model 3 | | | | Model 4 | | | |
|--|--|--------|---------|-------|---|--------|---------|------|---|-------|---------|------|--|-------|---------|------|
| | Coeff. | SE | T value | VIF | Coeff. | SE | T value | VIF | Coeff. | SE | T value | VIF | Coeff. | SE | T value | VIF |
| Constants | 0.891* | 0.048 | 18.572 | | 0.89* | 0.058 | 15.27 | | 0.861* | 0.049 | 17.503 | | 0.874* | 0.057 | 15.2 | |
| Diff _{i,t} | -0.083* | 0.03 | -2.768 | 1.426 | -0.06** | 0.028 | -2.26 | 1.69 | -0.11* | 0.03 | -3.565 | 1.9 | -0.1** | 0.030 | -2.31 | 2.49 |
| Cl _{i,t} | 0.079 | 0.073 | 1.071 | 1.33 | 0.042 | 0.072 | 0.59 | 1.71 | 0.085 | 0.073 | 1.158 | 1.5 | 0.039 | 0.072 | 0.54 | 1.83 |
| Leverage _{i,t} | 302.707* | 54.776 | 5.526 | 1.758 | 246.73* | 61.85 | 3.99 | 2.38 | 283.4*** | 87.49 | 3.239 | 6.04 | 230.3* | 83.64 | 2.75 | 5.42 |
| Cash _{i,t} | | | | | 438.99 | 1353.9 | 0.324 | 1.48 | | | | | 486.94 | 1280 | .38 | 1.53 |
| Loss _{i,t} | | | | | | | | | 0.093 | 0.098 | 0.948 | 8.26 | 0.045 | 0.086 | 0.517 | 6.93 |
| | R ² = 0.247 F = 10.951* D.W. = 1.983, d.f. = 100 | | | | R ² = 0.19 F = 5.737* D.W. = 1.945, d.f. = 99 | | | | R ² = 0.394 F = 16.063* D.W. = 2.243, d.f. = 99 | | | | R ² = 0.253 F = 6.646* D.W. = 2.129, d.f. = 99 | | | |
| Note: Number of Observations = 104 * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels | | | | | | | | | | | | | | | | |

4.5 Discussion

Bankruptcy occurs when a firm is unable to meet its obligations and appeals to the courts for protection from debtors while it reorganizes or liquidates its assets. It is a very commercially traumatic experience for the firm undergoing bankruptcy as well as for its stakeholders such as employees, creditors, customers, and suppliers. Therefore, the study of bankruptcy, the factors that contribute to the risk of bankruptcy, and any factors that mitigate such risk are important and relevant fields of study. This study focuses on two factors, bankruptcy risk and firm strategy. This study uses the methodology specified in Balsam, *et al.* (2011) to compute proxies for the two generic strategies posited by Porter (1980). Using secondary data, this study shows that as firms successfully implement these strategies, their bankruptcy risk reduces.

This study places the spotlight on listed manufacturing and hotel industries. First of all differentiation strategy and cost leadership strategy are constructed through factor analysis. Before doing factor analysis, four components are calculated. Out of these, first component is MARGIN. It is the result of five-year moving average of sales revenue which is divided by five-year moving average of cost of goods sold. Second component is SG&A and it is the result of five-year moving average of selling, general and administrative expenses divided by five-year moving average of sales. Third component is SCAPEX and it is measured as the five-year moving average of net sales scaled by five-year moving average of capital expenditure on property, plant and equipment. Fourth component is SPE and it is measured five-year moving average of sales divided by five-year moving average of net book value of plant equipment.

Four components are classified into two parts through rotated component matrix (factor analysis). Out of four components, SG&A and MARGIN support component one and it is denoted by differentiation strategy. SCAPEX and SPE support component two and it is denoted by cost leadership strategy. Value of KMO and communalities are approved that there is sample adequacy. It has been completed in chapter 3. This study uses Altman Z-score as a measure of bankruptcy risk. Altman (1968) was the seminal contribution in the bankruptcy literature. It is computed as:

$$Z = 1.2(WC) + 1.4(RE) + 3.3(EBIT) + 0.6(MVE) + 0.999(S)$$

The two-strategy constructs are continuous variables which are orthogonal to each other. Thus, each firm will have both a differentiation score and a cost leadership score. In other

words, this study captures both dimensions of differentiation and cost leadership for each firm because, consistent with the views of Porter (1980, 1985) and others, the two strategies are not viewed as two ends of the same continuum, but rather as two distinct platforms that can be used in isolation or in combination with each other (which is captured by having two-strategy constructs, one for differentiation and another for cost leadership, both of which are continuous variables).

In descriptive statistics and correlation analysis in this study, different variables such as Altman Z-score, differentiation strategy, cost leadership strategy, leverage, market capitalization, cash holdings to total assets and an indicator of loss firms' variables are analyzed. Mean value and standard deviation of both strategies are 0 and 1 respectively. There is low degree of positive relation between Altman Z-score i.e. bankruptcy risk and differentiation strategy.

Step-wise multiple regression analysis is used in this study. Altman Z-score is used as a dependent variable, different strategic positions i.e. differentiation and cost leadership strategy are used as the independent variables. Leverage, market capitalization, cash holdings to total assets and loss (dummy variable) are used as controlled variables. Out of four regression models, F-value of all regression modes is statistically significant. All the above regression models are normally distributed and are free from auto correlation, multicollinearity and heteroscedasticity problem.

Coefficient value of independent variable differentiation strategy is statistically significant and negative value with Altman Z-score. Hence, all regression results present that firms pursuing higher degree of differentiation increases bankruptcy risk in Nepalese enterprises. It is just opposite as per prior expectation of hypothesis five.

Out of four regression models, coefficient value of all regression equations of cost leadership strategy is statistically insignificant but it is positive. Hence, result of these equations cannot give the answer of impact of cost leadership strategy on bankruptcy risk in Nepalese enterprises as well as this study has not answered the impact of strategic positioning on behavior of cost of Nepalese enterprises yet. Therefore in the next chapter, an additional attempt has also been made to analyze the impact of cost leadership and differentiation strategy on the behavior of cost of Nepalese enterprises.

CHAPTER V

Strategic Positioning and Asymmetric Cost Behavior

5.1 Introduction

Understanding cost behavior is an essential element of implementation of generic strategies. In the traditional model of cost behavior that pervades the accounting literature, costs are described as fixed or variable with respect to changes in activity volume. Variable cost change proportionately with changes in the activity driver (Noreen, 1991), implying that the magnitude of a change in costs depends only on the extent of a change in the level of activity, not on the direction of the change. But some claim costs raise more with increase in activity volume than they fall with decreases (cooper & Kaplan, 1998). Specially, costs are sticky if the magnitude of the increase in costs associated with an equivalent decrease in volume. Empirical research provides very little evidence about the behavior of activity costs in relation to change in activity levels. One reason for this paucity of research may be a perceived scarcity a broad based data that include the costs and relevant drivers.

Empirical research documents a piecewise linear relation between earnings and stock returns, and often attributes this pattern to (conditional) conservatism - asymmetric recognition of good versus bad news (e.g., Basu, 1997). Cost stickiness denotes the asymmetric response of costs to increases and decreases in sales, a widely documented pattern in recent research on cost behavior (e.g., Anderson, Banker, & Janakiraman, 2003; Weiss 2010 hereafter ABJ).

In financial accounting, (conditional) conservatism is defined as the higher degree of verification needed for recognizing good news as gains than for recognizing bad news as losses (Basu, 1997; Watts, 2003a). Conservatism implies that bad news (typically proxied by negative stock returns) is recognized in earnings more quickly and more fully than good news (proxied by positive returns), and therefore the association between earnings and stock returns should be stronger for negative returns (bad news) than for positive returns (good news). Numerous empirical studies find results consistent with this prediction and infer the presence of conservatism (e.g., Pope & Walker, 1999; Ball, Kothari & Robin, 2000; Watts, 2003b).

Cost stickiness occurs when the absolute value of the cost change is greater for an increase than a decrease in activity volume (ABJ, 2003). Correspondingly, cost anti-stickiness arises when, for the same level of change in sales, cost decreases are more significant for sales decreases than the cost increases are for sales increases (Weiss 2010; BBCM 2013). The main idea underlying asymmetric cost behavior is that costs will not mechanically increase or decrease in line with changes in sales activity in the real world, unless managers make decisions on investing in or cutting back on resource capacity (ABJ, 2003). Thus, both sticky and anti-sticky costs can be attributed to the deliberate resource commitment decisions by rational managers facing uncertain demand and various adjustment costs (Banker & Byzalov, 2013).

In addition, prior studies have also documented that a variety of factors, such as managerial incentives and governance, can either mitigate or intensify asymmetric cost behavior. Dierynck, Landsman, and Renders (2012) document that managers increase labor costs to a smaller extent for sales increases but decrease labor costs to a larger extent for sales decreases so that their firms can meet or beat the zero earnings benchmark. Similarly, Kama and Weiss (2013) document that in the presence of incentives to meet earnings targets, managers expedite the trimming of slack resources in response to sales decreases, which results in a lower degree of cost stickiness than under normal circumstances. In contrast, Chen, Lu, and Sougiannis (2011) document those managers' empire-building behavior leads to cost stickiness and strong corporate governance mitigates such an asymmetry.

Recent research on asymmetric cost behavior in cost accounting (e.g., ABJ; Weiss, 2010; Chen, *et al.*, 2011) offers a fundamentally different potential explanation for asymmetric timeliness of earnings. Specifically, this research documents that many costs are sticky, i.e., they increase more when sales increase than they decrease when sales decrease. ABJ argue that cost stickiness arises because of two fundamental features of cost behavior: (1) many costs are determined by deliberate resource commitments made by managers, and (2) changing committed resource levels is costly and it involves adjustment costs such as hiring and firing costs for labor, or installation and disposal costs for equipment. Thus, when sales decrease, managers can choose whether to cut the committed resources, and if so, how much to cut them. Because managers take into account the adjustment costs associated with cutting resources in the

current period, as well as future adjustment costs required to restore resources if sales rebound in the future, they will often retain some underutilized resources to save on these adjustment costs. Therefore, the decrease in costs will be less than proportional to the decrease in sales. On the other hand, when sales increase, managers will have to add enough resources to accommodate the increased sales.

As a result, on average, costs will increase more for sales increases than they decrease for equivalent sales decreases, leading to cost stickiness. The asymmetric response of costs to sales changes due to stickiness further results in asymmetric behavior of earnings. Because costs enter earnings with a negative sign, cost stickiness implies that earnings should respond less to sales increases than to sales decreases. Because sales changes are positively correlated with concurrent stock returns, positive returns likely accompany sales increases, for which the relation between earnings and sales is weaker.

Meanwhile, a body of literature on strategic cost management suggests that managers make deliberate decisions to align a firm's cost structure with its business strategy. Balakrishnan and Gruca (2010) examine the extent to which an organization's core competency affects its cost stickiness by using a sample of Canadian acute care hospitals. They postulate that hospital managers are unwilling to reduce costs associated with these services that are critical to hospital's mission and associated with high adjustment costs. Consistent with this conjecture, they find the existence of cost stickiness only in costs related to direct patient care, a hospital's core service.

In contrast, this study investigates how strategic positioning affects managers' decisions about resource commitment, leading to asymmetric cost behavior. To achieve a competitive advantage, firms explicitly or implicitly pursue a competitive strategy (Porter 1996). Conceptualize competitive strategy by Porter's typology of differentiation and cost leadership (Porter, 1980; 1985; 1991). Successful differentiators need to achieve a technology leadership or create a high degree of customer intimacy (Porter, 1996). To achieve these strategic goals, differentiators make significant investments in capacity resources (e.g. human capital) specialized to their strategic needs (Peteraf, 1993). Consequently, it is costly for the differentiator to cut back on these specialized resources, because they are much less valuable in factor markets compared to the potential value they can create within the firm. On the other hand, cost leaders make efforts to achieve operational excellence through efficient

operations, resulting in a lean cost structure and low adjustment costs (Porter 1980, 1996). Combining the two lines of literature about asymmetric cost behavior and business strategy, a higher degree of cost stickiness relative to cost leaders, because differentiators have to face higher adjustment costs. Furthermore, BBCM (2013) argue that managerial expectation about future sales will affect firms' asymmetric cost behavior (henceforth BBCM). Following BBCM (2013), managerial optimism (pessimism), operationalized by a pattern of prior period sales increases (decreases), will moderate the functional relationship between a firm's strategic position and its cost stickiness or anti-stickiness.

Differentiation and cost leadership strategy operationalized by three alternative sets of strategy measures as in Bentley, Omer, and Sharp (2012) (henceforth BOS), an adapted version of Ittner, Larcker, and Rajan (1997) and financial ratios based on Selling and Stickney (1989) separately. For parsimony, this study presents only detailed empirical results using the BOS strategy measure in principal analysis, and uses the other two strategy measures in the additional analysis to document robustness of this study. The strategy of differentiation aims to create a product or service that is seen to be unique by customers. Porter (1980) argues that by creating customer loyalty and price inelasticity this strategy erects competitive barriers to entry, provides higher margin, and reduces the power of buyers because they feel that they lack acceptable substitute products. Miller (1986; 1988) notes that there are at least two different types of differentiation strategies: product innovation and intensive marketing or image management.

The cost leadership strategy strives for superior efficiency in manufacturing and distributing (this is also true of the defender strategy discussed by Miles and Snow, (1978). It eschews frequent adaptation, innovation or customizing of products to meet the special needs of customer (Miles & Snow, 1978). Although cost leadership requires creative cost trimming and perhaps benefits from related analytical activity, it calls for very little scanning and analysis of markets (Hambrick, 1982).

This study examined how these strategy measures affect the degree of cost stickiness in different strategic positioning and cost behavior. Hence, this chapter examined the strategic positioning and asymmetric cost behavior of Nepalese listed enterprises and the rest of the chapter organized as follows: section 5.2 outlines previous study about

generic strategy and asymmetric cost behavior. Section 5.3 describes data and testing methodology. The results are presented in section 5.4. Finally, section 5.5 provides a discussion overall the results.

5.2 Review of the relevant literature

The review of literature on generic strategy and organizational performance has been organized into five groups.

- I. Review of major studies during 1980s
- II. Review of major studies during 1990s
- III. Review of major studies during 2000s
- IV. Review of major studies during 2010s
- V. Review of major studies in Nepalese context.

I. Review of major studies during 1980s

There are some studies that are undertaken till 1990. Table 5.1 presents the summary of review of the studies undertaken till 1990. It includes the brief summary with their findings.

Table 5.1
Major studies during 1980s

| Study | Major findings |
|---|---|
| Phillips, Chang, and Buzzell (1983) | Product quality does not have a consistently direct effect on business unit ROI |
| Gregory and Peter (1984) | At least one of the three generic strategies will result in higher performance than if the firm fails to develop a generic strategy i.e. becomes stuck in the middle. |
| Lawless and Finch (1989) | Strategy-environment fit may not be as critical as market-selection in the competitive success of firms. |
| Mulford, Shrader, Chacko, and Blackburn, (1990) | Correlation between Porters (1980) competitive strategies provides evidence of multiple strategy use. |

Phillips, Chang, and Buzzell (1983) have examined on the product quality, cost position and business performance. This study used a casual modeling methodology to examine competing methodological and theoretical hypotheses concerning the effects of product quality on direct costs and business unit return on investment. In this study, data were collected from 1144 distinct two-year operating periods for 623 different businesses. According to its findings, higher relative product quality has a direct

positive influence on ROI in only three (consumer non-durables, capital goods and components) of the six types (consumer durables, consumer non-durables, capital goods, raw and semi-finished materials, components and supplies) of business studied.

A study on Porter's (1980) generic strategies as determinants of strategic group membership and organizational performance has been carried out by Gregory and Peter (1984). In this study, industry specific questionnaires were administered to each chief executive officer (CEO) of 22 non-diversified manufacturing firms in the paints and allied product industry. A 5-point scale was used with values ranging from "1 = not at all important" to "5 = extremely important". Descriptive statistics, factor analysis as well as cluster analysis were also used in this study. The findings suggest that the overall low cost cluster has the highest average return on total assets out of low cost, differentiation and focus. The focus group is the highest performing group on sales growth but had the lowest level of return on assets.

Similarly, a study on choice and determinism of a test of Hrebiniak and Joyce's framework on strategy environment fit has been made by Lawless and Finch (1989). It highlights the strategy-environment fit by classifying 146 firms into strategic groups, then evaluating each group in each environment. The findings suggest that in a minimum choice environment, low cost strategies produce higher returns than other types. In a differentiated choice environment differentiation strategies produce higher returns than other types.

Mulford, Shrader, Chacko, and Blackburn (1990) make an investigation into association between external environments planning and the development, of competitive strategy in small business firms. Business firms located in Central Iowa with more than 10 and less than 100 employees were the focus of this study. Letters were mailed to chief executive officer (CEOs) explaining the purpose of the study and assuring the CEOs that information they provided would be confidential for collecting data. A total of 97 of 115 firms were taken as a sample in this study. Only 32 of the 97 firms had a written strategic plan. The findings explain that the correlations between Porters (1980) competitive strategies provide evidence of multiple strategy use. Focus is correlated 0.541 with differentiation and 0.459 with low cost. Differentiation and low cost are correlated 0.638. Some small firms use a focus strategy with either

differentiation or low cost. Some small firms use differentiation and low cost strategies at the same time.

II. Review of major studies during 1990s

The major literature on generic strategies during the year 1990-2000 is shown in following table.

Table 5.2
Major studies during 1990s

| Study | Major findings |
|--|---|
| Thomas, Litschert and Ramaswamy (1991) | Firms achieving a greater degree of alignment between their strategy and the profiles of top managers, generally realized superior performance outcomes |
| Wright, Kroll, Tu, and Helms (1991) | Unsuccessful low cost businesses with the lowest performance, unsuccessful differentiated businesses with the second lowest performance, and successful businesses with combination strategies with the highest performance |
| Morrison and Roth (1992) | Quasi-global combination strategy business has higher ROA than domestic, product specialization strategy |
| Zahara and covin (1993) | Business strategy affects the strength of the relationship between firm performance and particular technology policies. |
| Nayyar (1993) | No evidence of the use of combined cost-leadership and differentiation strategies was found at the product level. |
| Carter, Stearns, and Reynolds, (1994) | Strategic typologies constructed by Porter (1980); miles and snow (1978) are inadequate for explaining the breath of strategies pursued by new venture firm. |
| Dugal and Schroeder (1995) | Market entry is related to the stage of the product life cycle in the technological environment and the competitive strategy of the business unit. |
| Lee and Miller (1999) | ROA is strongly and positively influenced by the interaction between organization's commitment to employees and the dedicated pursuit of Porter's (1980) strategies for achieving competitive advantage |
| Pelham (1999) | Higher correlation between growth differentiation strategy and environmental turbulence in the lowest profitability group, as compared to the highest group |

Thomas, Litschert, and Ramaswamy (1991) have studied on the performance impact of strategy-manager co-alignment: an empirical examination. This study develops a theoretical model that explains the impact of the fit between top executive characteristics and strategic orientation on organizational performance.

The electronic computing equipment industry has been chosen for this study. Only those publicly traded firms which have earned at least 70 percent of their sales from the electronic computing equipment industry have been included in the sample. The results

of this empirical examination provide a significant support for the administrative dimension, an aspect of the typology that has been largely overlooked thus far. Further, it has been found that firms achieving a greater degree of alignment between their strategy and the profiles of top managers generally realize superior performance outcomes.

Wright, Kroll, TU, and Helms (1991) have made an investigation into generic strategies and business performance: an empirical study of the screw machine products industry. This study focuses on six different groups of businesses which might be present in the empirical exploration - those competing successfully with the low cost strategy and those competing unsuccessfully with this strategy; those competing successfully with the differentiation strategy and those competing unsuccessfully with this strategy; and those competing successfully with low cost and differentiation strategies and those competing unsuccessfully with these strategies. A sample of businesses in the screw machine products industry constitutes the focus of this investigation. This is an industry predominated by privately held small businesses. More than 60 percent of these businesses have sales under \$50 million per year.

The industry may be characterized by modest growth and technological change. A total of 100 companies were randomly selected. In spite of the assurances made, only 56 businesses agreed to participate in the investigation. The 56 enterprises in the final sample (56 percent of businesses randomly selected) were non-diversified, autonomous businesses. In this study, the variables have chosen included product R&D expenses, process R&D expenses, manufacturing expenses, relative direct costs, capacity utilization, advertising expenditures and pricing. Business performance was measured through return on investment and growth in relative market share. Cluster analysis was adopted for the measurement procedure and it divided six different groups. According to its findings, unsuccessful low cost businesses registered the lowest performance, unsuccessful differentiated businesses showed the second lowest performance, but successful businesses with combination strategies turned in the highest performance.

A study on the taxonomy of business-level strategies in global industries has been made by Morrison and Roth (1992). Primary and secondary data were used for this study.

Small businesses were not included given the considerable evidence that the strategic imperatives and resulting patterns of strategic behavior of small businesses differ significantly from those of medium and large businesses. The economic performance of business was measured which were three year average of return on investment (ROI), return on assets (ROA) and sales growth. To develop the general taxonomy, the competitive positioning, international integration, political and investment constructs were each refined through factor analysis. Empirical data analysis suggests that there are four broad strategies i.e. domestic product niche, exporting high quality offerings, international product innovation and quasi-global combination. Regarding performance measured quasi-global combination strategy has significantly higher ROA than product specialization. No significant differences have been found in either the ROI or sales growth of businesses across the four clusters.

Similarly, there has been another study on business strategy, technology, policy and firm performance on relationships among selected business strategy dimensions, technology policy dimensions, and firm performance. Data were collected from 103 manufacturing-based firms representing 28 mature industries. Questionnaires were mailed to chief executive officer (CEO) or the highest ranking official because of this individual's direct involvement in formulating company strategy and policy. Business strategy was operationalized along the four dimensions of commodity-to-specialty products, marketing intensity, cost leadership, and product line breadth. Data were collected from secondary sources (COMPUSTAT, Ward's Directory and company annual reports) and phone calls to companies regarding their return on sales (ROS) for three year period following the survey data collection. The findings of the study recommend that cost leadership scale is positively, although more modestly, associated with the new product development scale (Zahara & covin, 1993).

Likewise, a study on the measurement of competitive strategy, with evidences from a large multiproduct U.S. firm has been made by Nayyar (1993). Data were collected from respondent through questionnaire indicate, on a five-point scale, the extent to what the intended competitive strategy for a product or business had been achieved. A second brief questionnaire administered separately contained one open-end question

that asked respondents to indicate the competitive advantage of the product or business they had been managing. The findings reveal that business-level measurements are not good indicators of product-level competitive strategies, but that cost leadership and differentiation competitive strategies are.

New venture strategies and theory development with an empirical base study has been conducted by Carter, Stearns, and Reynolds, (1994). The strategy focus on over 2500 new ventures across six different industries has been made to identify what dimensions coalesce into distinct configurations. The supposition that traditional strategy typologies are inadequate to describe the breadth of differentiation exhibited among new ventures has been supported. Data have been collected from 1,119 new firms in Minnesota and 1,534 in Pennsylvania. All regions of these states and all industry sectors had been represented except agricultural production, although agricultural services had been included. Findings from this study show that the recent strategic typologies constructed by Porter (1980) and Miles and Snow (1978) are inadequate for explaining the breadth of strategies pursued by new venture firms. A comparison of the strategy archetypes found in this study reveals several similarities.

Strategic positioning for market entry in different technological environments has been analyzed by Dugal and Schroeder (1995). The analysis looks at the relationship between the orders of market entry of businesses following different competitive strategies. Using the Profit impact market share (PIMS) database, a sample of 2,498 business units has been cross-classified based on the technological environment and stage of the product life-cycle. Analysis of variance has been applied in an exploratory attempt to determine the relationship between order of market entry and competitive strategies. The findings suggest that in a stable technological environment with product-demand in mature stages, a differentiation position is the major force accounting for differences in the order market entry. Under stable technological conditions with product demand in the mature stage, the differentiation and focus dimensions have been the most important factors explaining the variation in the dependent variable. Under turbulent technological conditions, with demand in a mature

stage, the differentiation dimension explains the major variation in the order of market entry.

Lee and Miller (1999) critically examine Korean business: how an organization's commitment to its employees (OCE) can aid in the profitable execution of its positioning strategies. The industries selected for this study were textile, machinery, automotive parts and electronics. The findings explain that return on assets (ROA) is strongly and positively influenced by the interaction between OCE and that the dedicated pursuit of Porter's (1980) strategies for achieving competitive advantage are cost leadership, marketing differentiation and innovative differentiation.

Pelham (1999) has studied the influence of environment, strategy and market orientation on performance in small manufacturing firms. It compares the industry environment impact with the impact of firm strategy and market orientation culture on small manufacturing firm performance. Twelve hundred industrial manufacturing firms were selected from Ward's Directory for the mailing of surveys on the basis of size (\$20–100 million in sales), ownership (wholly owned), and type of product. One hundred and ninety of the twelve hundred firms in the sampling frame were no longer in business. Two hundred and twenty nine presidents returned usable questionnaires with all responses completed for a response rate of 23 percent. Multiple models of performance were used based on research indicating the importance of recognizing the multidimensional nature of firm performance. The findings, recommend that emphasis on growth/differentiation strategy has a significant impact on small firm profitability. Industry characteristics have a minimal impact on small firm performance and minimal moderating impact on the relationship between strategy and Performance. Possible explanations for this weak influence include small firm adaptability and the limited range of small firm strategic options. The study also suggests that strong performance requires more than an appropriate match of strategy to the environment, because there is a higher correlation between growth differentiation strategy and environmental turbulence in the lowest profitability group, as compared to the highest group.

III. Review of major studies during 2000s

The findings are as follows which were studied by different research scholars.

Table 5.3
Major studies during 2000s

| Study | Major findings |
|---|---|
| Svatopulk, Ljuba, and Viera, (2001) | “Stuck in the middle” is better for Slovak hospital performance. |
| Bishop and Megicks (2002) | Industry is generally characterized by differentiation strategies rather than price competition |
| Jenning, Rajaratnam, and Lawrence (2003) | Performance of an organization with a reactor strategy tends to be lower than those organizations with either a defender, prospector or an analyzer strategy |
| Karagozoglu, and Lindell (2004) | Positive relationship between differential / hybrid strategy and e-commerce strategy of customer based expansion |
| O’Regan and Ghobadian (2005) | Firms tend to place a greater emphasis on innovation in turbulent operating environments. |
| Garrigos –Simon, Marques, and Narangajavana, (2005) | Prospectors, defenders and analysers are performed well and reactors are linked with poor performance. |
| Thornhill and White (2007) | Significant relationship between strategic purity and organizational performance |
| Kabadayi, Eyuboglu, and Thomas, (2007) | Firms operating in highly uncertain and munificent environments that combine a differentiation strategy but firms operating in less uncertain, less munificent environments that combine a cost leadership strategy. |
| Banker, Hu, Pavlou, and Luftman (2008) | Validating the relationship between a firm’s strategic positioning and its chief information officer (CIO) reporting structure and also their aligned joint role in firm performance |
| Demirbag and Tatoglu (2008) | Relative use of competitive strategy options varied to a certain extent between the market entry modes of Turkish firms |
| Prajogo and McDermott (2008) | High-performing firms have stronger relationships between their operations strategies and operations activities than low-performing firms. |
| Furrer, Sudharshan. Thomas, and Alexandre (2008) | Some firms that are close together in strategy space vary in performance; some firms that are close together in strategy space belong to quite different resource configurations |
| Hallgren and Olhager (2009) | Agile manufacturing is found to be negatively associated with a cost leadership strategy emphasizing the difference between lean and agile manufacturing. |
| Salavou (2010) | Three types of firms pursuing different strategy orientations for dealing with competition (i.e. the hybridists: 44 firms, the confused strategists: 25 firms and the non-strategists: 11 firms). |
| Parnell (2010) | Strategic clarity—the extent to which a single strategy reflects the organizations’ strategic intent—was also associated with organizational performance and businesses with high and low strategic clarity outperformed those with moderate strategic clarity. |
| Duquesnois, Gurau, and Roy, (2010) | The preferred strategic choice of the majority of investigated firms is the combination of “niche plus differentiation” strategies. |
| Nandakumar, Ghobadian, and O’Regan (2010) | firms adopting one of the strategies, namely cost-leadership or differentiation, perform better than “stuck-in-the-middle” firms which do not have a dominant strategic orientation. |

A study on the performance implications of Porter's generic strategies in Slovak hospitals has been conducted by Svatopulk, Ljuba, and Viera, (2001). It examines the use of Porter's generic strategies and their effect on performance in the context of the Slovak hospital industry. The sample of this study was chosen from the list of acute care hospitals in 1999 of Slovak Institute for Health Care Information and Statistics (Uzis, 1999).

An acute care hospital is a hospital in which the average length of stay for all patients is fewer than 30 days and that provides care for short-term patients. The sample consisted of acute care with 30 or more beds. A total response of 76 fully completed questionnaires (94 percent) was obtained. All the measures in this study were based on self-reported data. The possible common method variance was, therefore, addressed by the use of factor analysis and descriptive statistics. To identify strategic types of hospitals based on their use of generic strategies, hierarchical cluster analysis was used. The performance of hospitals with different forms of strategic orientation was compared using multivariate analysis of covariance (MANCOVA) and univariate analysis of variance.

The findings disclose that hospitals which follow a "stuck in the middle" strategy, in general, have superior performance, while those that place only low emphasis on cost leadership, differentiation and focus, labeled "wait and see" have poor performance.

Similarly, a study on the competitive strategy and firm size in the estate agency industry has been conducted by Bishop and Megicks (2002). This study examines the relationship between competitive strategy and firm size in the UK estate agency industry, by presenting evidence from a recent empirical study of the industry in South West England. Data were collected through a mail survey of a sample of estate agency offices in South West England. The mail survey was conducted in the winter of 1997-1998. The population frame consisted of all estate agency offices that could be identified in the standard south west region from yellow pages and other local business directories. A questionnaire was distributed to a random sample of 1,000 offices representing two-third of the whole population.

This study indicates that the industry is generally characterized by differentiation strategies rather than price competition and suggested that this may be attributable to a

relative lack of economies of scale and the localized nature of the market. However, different types of firm place a greater emphasis upon different strategic positions. It suggested that small firms wishing to establish a long term position in a market in which larger firms are operating need to access both the market environment and the market position of their rivals, if they are to discover particular market niches in which they can develop competitive advantage.

Jenning, Rajaratnam, and Lawrence (2003) have examined strategy performance relationship in service firms a test for equifinality. According to equifinality, a small final state can be reached from different initial conditions and in different ways. For collecting primary data through questionnaire from random sample of 1000 U.S. service firm were surveyed in this study. The sample included firms from six service industries: banking, brokerage, hospital, hotel, insurance and transportation. Respondents were asked to evaluate their performance relative to a major competitor using four performance measures- earning growth rate, sales growth rate, return on investment, and return on sales with a self-report five point Likert Scale. The findings indicate that a significant difference exists between firms with a reactor strategy and each of the other three strategy types. No significant differences have been found between the performances of firms with analyzer strategy.

A study on the electronic commerce strategy, operations, and performance in small and medium-sized enterprises has been made by Karagozoglu and Lindell (2004). It focuses on the electronic (e-commerce) involvement of small and medium-sized enterprises (SMEs) in terms of the strategic, operational, and performance aspects. Findings were gleaned from a survey of SMEs in northern California USA. 55 percent of the sample respondents were from costumer goods sector whereas 45 percent were from industrial good sectors. Competitive strategy was measured by asking the respondents to indicate their company's product market and cost position in relation to the competitors via five item using five-point scales.

The findings explain that there is a positive relationship between differential/hybrid strategies and e-commerce strategy of customer based expansion, and that a simultaneous emphasis on online customer service strengthened this relationship. Cost leadership/hybrid strategies do not reflect upon the e-commerce strategy focused on purchasing management.

The study on innovation in small-to-medium sized enterprise (SMEs) from the perspective of impact of strategic orientation and environmental perceptions study has been conducted by O'Regan and Ghobadian (2005). It examines the role and impact of strategic orientation and environmental perceptions on innovation and supporting mechanisms like process technologies and management practices, in SMEs. The sample consists of 1000 small and medium sized UK electronic and engineering firm. The findings reveal that prospector type firms are engaged in product innovation to a greater extent in both types of environment compared to defender firms. Interestingly, a higher percentage of both prospector and defender type firms modifies existing products, add new products, or introduce patented products in a turbulent environment compared with firms in a stable environment.

A study on competitive strategies and performance in Spanish hospitality firms identifies the relationship between strategic orientation and various performance measurements in Spanish hospitality enterprises through a sample of 189 hospitality firms. This study uses Miles and Snow strategy typology and validates a performance scale using the structural equations technique. Its findings indicate that best performing hotels in the Spanish hospitality industry are those that follow the first three types of strategies (prospectors, analysers and defenders) and of these three prospectors are almost always associated with super performance. In contrast, and as predicted by theory, reactors are significantly associated with inferior performance in all performance measures (Garrigos-Simon, Marques, & Narangajavana, 2005).

A study on strategic purity, from the perspective of a multi-industry evaluation of pure vs. hybrid business strategies, has been made by Thornhill and White (2007). It focuses on the effectiveness of relatively pure vs. hybrid strategies using data from a large sample 2351 firms across a range of different industries i.e. manufacturing, construction, retail and business services. The findings disclose that there is a positive relationship between strategic purity and performance, and that firms pursuing a pure product leadership position performed only slightly better than the hybrids.

The study on performance implications of designing multiple channels to fit with strategy and environment has been conducted by Kabadayi, Eyuboglu, and Thomas (2007). It is concerned with single industry consisting of manufacturer of electronic components. The sample consists of 925 firms randomly selected from Dun and

Broadstreet's online directory. Questionnaires cover the entire distribution system used in their business units.

The findings suggest that managers facing in highly uncertain and munificent environments can make the most out of their multiple channel systems when they combine a differentiation strategy and an expansive multiple-channel system with an organic specialized channel decision structure and a large number of mostly direct channels. Under the condition of firm operate in less uncertain, less munificent environments that combine a cost leadership strategy with a bureaucratic, unspecialized channel decision structure and a limited number of mostly indirect channels.

Banker, Hu, Pavlou, and Luftman (2008) have studied chief information officer (CIO) reporting structure, strategic positioning and firm performance. Their study focuses on firm's strategic positioning (differentiation and cost leadership), determination of its CIO reporting structure (CIO reporting to the chief executive officer versus to the chief financial officer), and an alignment between the CIO reporting structure and the firm's strategic positioning that is associated with higher firm performance. Strategic positioning has been measured through cost leadership and product differentiation. Firm performance has been measured through abnormal stock returns and annual realized cash flows from operations. Secondary data have collected through Compustat and primary data have been collected through surveys of IT executives of US firms.

According to the findings, firm's strategic positioning determines its CIO reporting structure. Specifically, 17 differentiators tend to have their CIO report to the chief executive officer, while cost leaders tend to have their 18 CIO report to the chief financial officer. Second, the alignment or fit between a firm's strategic positioning and its CIO reporting structure influences firm performance (measured with both abnormal stock returns and subsequent cash flows from operations).

A study on competitive strategy choices of Turkish manufacturing firms in European Union has been made by Demirbag, and Tatoglu (2008) who examine, through a sample of 79 large sizes Turkish manufacturing firms, the relative use of competitive strategies and action programs by sample firms operating in EU markets. The study adopts both descriptive and multivariate statistical analyses. The overall sample has been partitioned into two groups with regard to the choice of a particular market entry

mode. The first group consists of Turkish firms that are involved in non-equity based entry modes (e.g. exporting, licensing and franchising); the second group includes firms that are involved in equity based entry modes (e.g. wholly owned subsidiary or equity joint venture). Test results indicate that the relative use of competitive strategy options varied to a certain extent between the market entry modes of sample firms. However, no variation has been noted between the implementation level of action programs and the choice of a particular market entry mode (equity based and non-equity based) by Turkish firms serving the EU markets.

Similarly, a study on the relationships between operations strategies and operations activities in service context has been made by Prajogo and McDermott (2008). It focuses on the relationships between selected operations strategies and the associated operations activities. Data for this study were drawn from 190 managers of the Austrian service organizations whose primary responsibilities were related to the daily operations of the firms. The targeted service organizations encompassed various sectors including transportation, communication, banking, insurance, health care, education, wholesale, retail, and professional services. Successful firms pursuing a strategy of low cost had a relationship between this operations strategy and an emphasis on technological activities, whereas their low-performing counterparts pursuing the similar strategy did not.

This study indicates the potential for a relationship between technological activities and success for service firms pursuing low-cost strategies. In other words, the data explains that the idea that a focus on technological activities may be a differentiator between successful and unsuccessful firms competing on low cost.

Sudharshan, Thomas, and Alexandre (2008) have studied resources configurations, generic strategies, and firm performance from the perspective of exploring the parallels between resources-based and competitive strategy theories in a new industry. The study examines linkages between firm-level resources, Porter's competitive strategy space and firm performance and explores them in the context of new industry, - the marketing technology industry. The questionnaire method of data collection used in this study relies on key informants' perception to indicate the firms' strategy based on informants' recall of information about resources, strategies and strategic positions. Fifty-two firms constitute samples for this study. The findings reveal that some firms that are close

together in strategy space vary in performance; some firms that are close together in strategy space belong to quite different resource configurations; firms that belong to the same resources configuration (i.e. are close together in resources space and distant from others) vary in performance; given the origin (i.e. resources configuration) of a new entrant there exists an optimal strategy that can be theoretically defined; and corresponding to each resources configuration there seems to exist a unique optimal region in strategy space.

Hallgren and Olhager (2009) have examined lean and agile manufacturing from the perspective of external and internal drivers and performance outcomes. Lean and agile manufacturing are two initiatives that are used by manufacturing plant managers to improve operations capabilities. The purpose of this study is to investigate internal and external factors that drive the choice of lean and agile operations capabilities and their respective impact on operational performance. The model has been tested with data from the high performance manufacturing project comprising a total of 211 plants from three industries (electronics, machinery, and automobile supplies) and seven countries (USA, Germany, Sweden, Finland, Austria, Japan and South Korea). The findings reveal that a cost-leadership strategy fully mediates the choice of lean manufacturing, whereas a differentiation strategy only partially mediates the choice of agile manufacturing, since there is a direct effect on agility from the competitive intensity of the industry.

Salvou (2010) has investigated into strategy types of service firms: evidence from Greece. The investigation focuses on empirically examined different types of service firms, featuring strategy orientations and the performance of different emphases. Out of 500 most profitable service firms 178 were selected. Out of the 178 firms were contacted, 81 agreed to cooperate (46 percent response rate). Data were collected by a structured questionnaires offered on the internet. Data were analyzed with the help of factor analysis, cluster analysis and analysis of variance. According to its findings, three types of firms pursue different strategy orientations for dealing with competition (i.e. the hybridists: 44 firms, the confused strategists: 25 firms and the non-strategists: 11 firms). Furthermore, the result suggests that performance is dependent on these strategy types.

The first cluster, non-strategists, constitute strategy-less service firms in the sense that low cost, differentiation and differentiation focus have been weakly pursued. This group, although the smallest in size (11 firms), implements an opportunistic, “day-to-day” model of doing business. The second cluster, the confused strategists, forms a group of 25 firms, placing a medium emphasis on one generic strategy, namely differentiation. These firms seek competitive advantages based on marketing ingredients (i.e. brand identification, innovation in marketing techniques and methods and advertising) and have no interest in low-cost elements or a narrow competitive scope. The biggest group of 44 firms has been founded to be composed of the hybridists, denoting competitive behavior emphasizing two generic strategies simultaneously. Firms of this group strongly have been to pursue low-cost elements and a narrow competitive scope while placing secondary importance on marketing ingredients.

The final step of the analysis involves the investigation of potential relationships between the strategy types and firm performance. As such, one-way ANOVA has been used for the three strategy types as the independent variables and the two measures of firm performance as the dependent ones. This final step of analysis explains that statistically significant differences occur across the clusters on both measures of firm performance. More specifically, the hybridists are the best the performers in comparison to the non-strategists and confused strategists. The non-strategists are the worst performers.

The study on strategic clarity, business strategy and performance has been examined by Parnell (2010). It highlights the link between business strategy and performance, giving special attention to the composition of combination strategies. The combination strategy is associated with higher performance in some but not all instances. A survey assessing business strategy and performance has been completed by managers representing 277 retail businesses in the USA. A total of 277 responses represent all management levels.

The findings reveal that there are significant differences in performance for defenders, prospectors, and reactors but not analyzers. Defenders reporting only one strong fit (i.e. only the defender strategy) significantly outperformed all other defender groups.

Prospectors report only one good fit or three good fits outperforms the other prospector groups.

Wine producers' strategic response to a crisis situation has been examined by Duquesnois, Gurau, and Roy, (2010). The objective of this study is to put in evidence the competitive strategies adopted by firms in a crisis industry, focusing on wine producing firms from the Languedoc-Roussillon region, located in the south of France. The two case studies consider as exemplary situations showed that many strategies, corresponding to different levels of performance, are possible in a crisis context. First, two case studies have been developed through interviews with wine producers. This study shows that many strategies, corresponding to different levels of performance, are possible in a crisis industry. Second, this study has utilized a questionnaire survey to wine producing firms from the Languedoc-Roussillon region, south of France. Third, ordinal regression is operated in order to link financial performance and strategic choices of the investigated 160 respondent firms.

The findings suggest that the first ones concern the producers' perception regarding the effect of the crisis on their organization: i) most of firms perceive the crisis effect and this perception is more important for the large firms ii) experienced responding firms describe themselves as more affected by the crisis than the less experienced ones. The other trends concern the strategies adopted by the investigated firms: i) most of the firms do not try to obtain any type of a competitive advantage ii) the most implemented strategy is the combination of "niche + differentiation" strategies iii) the strategic choice of firms is influenced by their size; the strategy "niche + differentiation" is preferred by a large percentage of small firms iv) the strategic choice of firms is influenced by their experience; many less experienced firms prefer to adopt a differentiation strategy or a combination of the "niche plus differentiation" strategies.

Nandakumar, Ghobadian, and O'Regan, (2010) have been critically looked at the relationship between business-level strategy and organizational performance with the focus on manufacturing firms in the UK belonging to the electrical and mechanical engineering sectors. Organizational performance has been measured using subjective and objective measures. Subjective measures are objective fulfillment and relative competitive performance and objective measures are return on assets (ROA) and return on sales (ROS). The findings show that the integrated strategy group performs better

than cost-leaders and differentiators in terms of the subjective measures of performance. However, in terms of the objective performance measures, the performance level of the integrated strategy group is worse than cost-leaders and differentiators strategy.

IV. Review of major studies during 2010s

The major literature on generic strategies after 2010 is shown in following table.

Table 5.4
Major studies during 2010s

| Study | Major findings |
|--|--|
| Box and Miller (2011) | Most successful generic strategy is focused on differentiation strategy |
| Qi, Zhao, and Sheu (2011) | Firms that primarily focus on a differentiation strategy emphasize an agile supply chain strategy and cost leaders are inclined to implement both lean and agile supply chain strategies |
| Waweru (2011) | There is no significant difference between the level of strategy implementation achieved by any pair set of the three strategic groups i.e. cost leadership differentiation or dual strategic advantage. |
| Banker, Flasher, and Zhang (2013) | Firms pursuing a differentiation strategy exhibit greater cost stickiness, on average as compared to firms pursuing a cost leadership strategy |
| Hoejomse, Brammer, and Millington (2013) | Low-cost producers largely neglect their social responsibilities in the supply chain. In contrast, firms pursuing differentiation strategies are considerably more engaged with these issues, partly because they have better supply chain processes |

Box and Miller (2011) have investigated into small-firm competitive strategy of rural Kansas and Missouri. MBA students and final-semester undergraduates conducted 167 onsite interviews with CEOs and sole practitioners. Interviewees were from southwest Missouri and southeast Kansas. Each respondent was asked to complete a questionnaire about generic strategies. According to its findings, fifty-eight firms are differentiators and forty-five were cost leaders. The remaining firms are unable to articulate a specific generic strategy and are what Porter has described as “stuck in the middle.” Out of its most successful generic strategy is focused differentiation.

Qi, Zhao, and Sheu (2011) have examined the relationships among competitive strategy, supply chain strategy, and business performance while examining the moderating effect of environmental uncertainty. Data were collected through 604 questionnaires from three cities in China. Six categories of variables were considered for the analysis: cost leadership strategy, differentiation strategy, lean supply chain

strategy, agile supply chain strategy, environmental uncertainty with three dimensions, demand uncertainty (DU), supply uncertainty (SU), and technological uncertainty (TU) and business performance.

All variables were measured on Likert-type scales with response options ranging from 1 to 7. Factor analysis was performed to construct new variable. According to its findings, there is significant moderating effects of external environment on the relationships among competitive strategy, supply chain strategy, and business performance. Firms that primarily focus on a differentiation strategy emphasize an agile supply chain strategy. Cost leaders are inclined to implement both lean and agile supply chain strategies, but their emphasis on agile strategy is significantly greater in a volatile environment than in a stable environment. The choice of supply chain strategy does not appear to be an “either-or” decision and firms could adopt either a lean or an agile strategy, or both, depending on the environment.

A study on comparative analysis of competitive strategy implementation has been conducted by Waweru (2011). This study compares the levels of strategy implementation achieved by different strategic groups, comprising firms inclined towards low cost leadership, dual strategic advantage. Data were collected from 71 top executives from 59 companies among the top 300 private sector firms in Kenya. Data were analyzed through different statistical tools like t-test, ANOVA and multiple linear regressions.

According to its findings, there is no significant difference between the levels of strategy implementation achieved by any pair set of the three strategic groups. This study reveal that the predictors of strategy implementation include the firm’s capacity to overcome resistance to change, having incentives based on meeting strictly quantitative targets, adopting a win-lose competitive posture, its effectiveness in strategy implementation, and the environmental rate of change. The results also indicate that there has been no significant difference between the preferences for use of either win-lose or win-win competition by any pair set of the strategic groups.

Banker, Flasher, and Zhang (2013) have studied on strategic positioning and asymmetric cost behavior. This study examines how a company’s choice of strategic positioning affects its cost behavior. Compustat data (sample period from 1979 to

2006) were used for this study. Number of firm year observation of this study was 80,316. The empirical findings recommend that firms pursuing differentiation strategy exhibit greater cost stickiness, on average as compared to firms pursuing a cost leadership strategy. Firms strategic positioning and cost behavior is moderated by the optimistic or pessimistic expectations of managers for future sales.

A study on an empirical examination of the relationship between business strategy and socially responsible supply chain management (SR-SCM) explores the effect of business strategy on SR-SCM. This study draws on data from 178 UK-based companies, and 340 buyer-supplier relationships.

Data were collected through on line questionnaire from senior procurement officer and director of procurement, who had relevant knowledge of the strategies and policies of the firm and the purchasing department. Similarly data were collected through interview from purchase manager. According to its findings, low cost producers tend to neglect SR-SCM while firms pursuing differentiation strategies are more actively engaged with SR-SCM (Hoejomse, Brammer & Millington, 2013).

V. Review of major studies in Nepalese context

There are some studies undertaken in the Nepalese context. The major studies undertaken in the Nepalese context with their major findings of empirical studies are provided in the given table

Table 5.5
Some major studies undertaken in Nepalese context

| Study | Major findings |
|----------------------------------|---|
| Shah (2001) | Price with discounts attracts mostly to female and Nepalese customer and helps to increase sales volume and to clear out old stock of department store |
| Gautam (2008) | Cost minimization strategy is the most commonly used HRM strategy in Nepalese companies |
| Khanal Rai, and Bhattarai (2008) | Purchase decision effected by price, quality and brand 43.6 percent, 35.2 percent and 15.2 percent respectively out of different factors like price, quality, brand, post purchase service, credit facility and behave of the seller. |
| Chaudhary (2013) | There is a significant difference between private and public banks in terms of business strategy existing in Nepalese banks. |

A study on departmental stores of Kathmandu Valley and their price mix has been made by Shah (2001). Population of this study constituted departmental stores which

were situated in Kathmandu Valley. Six department stores from Kathmandu district and one from Lalitpur district were taken as a sample. The findings disclose that all departmental stores are conscious to maintain quality of products because they sold packed and sealed products to their customers. Generally, packed products are labeled and branded where manufacturer date, method of use, warning, ingredients, producer's name etc. are written on the labels.

What the revelation means is that such products are better in quality than unusual products. Besides, above things, the staffs of departmental stores check regularly the damaged and expired products and remove them. In this way, the product qualities of departmental stores are better than other ordinary shops. On the other hand fixed price is main attraction of all department stores because customers think that they are free from cheating and bargaining. On the other hand, price with discounts attracts mostly to female and Nepalese customer. It helps to increase sales volume and to clear out old stock of department store.

Strategic human resources management in Nepal has been studied by Gautam (2008). It highlights the extent to which human resource management is integrated with business strategy of the organization. This is a survey-based, exploratory cum descriptive research. The research instrument used in this study consists of questionnaire survey for data acquisition from the top management.

For this study, directors or equivalent, senior line managers, human resource managers and company secretary comprise of the top level of management. The population of this study constitutes total organizations listed in Nepal stock exchange (NEPSE) and security board of Nepal (SEBON). Questionnaire survey data have been analyzed with the help of Statistical Package for Social Science (SPSS) version 11.5. Microsoft office excel 2003 and some other statistical tools like descriptive statistics, t-test, 'f' test, central tendency, Kendall's Tau correlations, Chi-square and Cronbach's alphas.

It has been noticed that the cost minimization strategy is the most commonly used human resources strategy in Nepalese companies, and that talent acquisition and talent improvement are the least practiced forms of HRM strategies. The findings indicate that organizations are very much sensitive to the issue of cost reduction and less

involved in employee empowerment programs like performance based pay, and training and development.

A study on analysis on consumer and institutional buying behavior in Kathmandu valley examines the major determinants of consumer and institutional buying behavior in Kathmandu valley. Primary and secondary data were used for this study. The primary data were collected through questionnaire from consumers, institutional buyers as well as small, medium and large size sellers of different products. Secondary data were collected from publication of concerned institutions, reports, journals and other published materials. The total number of 250 consumers was selected for questionnaire randomly from various 25 places with in Kathmandu Valley. Similarly, 150 seller's represents were randomly selected from the same places to rectify and check the results. The findings suggest that the purchase decision of consumer was found greatly affected by price factor. Similarly, quality and brand factor have been found to be second and third important factors. The percentage of all these is 43.6, 35.2, and 15.2 respectively. Regarding the question, who the main decision maker of consumer products and essential products at home is 48.4 percent say female, 33.6 percent say male and rest say both male and female (Khanal, Rai, & Bhattarai, 2008).

Chaudhary (2013) has examined competitive strategy in Nepalese banking sector. It highlights the relationship between the strategic positioning of firms and the practices of business strategy of the sustainability of performance in Nepalese banking sector. This study has adopted descriptive cum comparative research design. It further includes the employees as respondents having supervisors and manager level which are working and in public and private Nepalese banking sectors.

In this study, primary data was the basic information. Respondents were selected at least middle level managers. Opinion survey with mostly close end five point Likert-scale questionnaire was used in the survey. Mean frequencies, percentage and others tools were used to analyze the parameters of the study.

The findings suggest that Nepalese banking organizations focused on low cost strategy to meet the particulars customer needs. In case of differentiation strategy, Nepalese banks conduct innovative products or service frequently and their customers compose only a small proportion of the broad clients-customers. It has been also found that

interaction between both strategies needs to be considered for the successful applications of business strategy initiatives in an organization. There is a significant difference between private and public banks in terms of business strategy existing in Nepalese banks.

After study of different research articles which has been published in different international journals as well as other different sources. But from the perspective of Nepalese enterprises, there is still a gap of study on the impact of change on cost behavior due to implementation of differentiation and cost leadership strategy.

5.3 Data and related methodology

I. Nature and sources of data

To measure strategic positioning and asymmetric cost behavior of Nepalese listed enterprises, secondary data is used. These data have been collected from Security Board of Nepal, Nepal Stock Exchange and concerned companies i.e. sampling enterprises which are mentioned in chapter one. Data have been collected from 2000/01 to 2011/12 and all collected data have been converted into five-year moving average.

II. Method of analysis

The following procedures and statistical tools have been used for analyzing the data:

A. Strategy measures

In line with prior literature, employ key financial statement ratios as an alternative proxy for the identification of companies' strategic position (e.g. Selling & Stickney 1989; Stickney & Brown 1998; Banker, Hu, Pavlou, & Luftman, 2011). Return on assets (ROA) reflects a firm's ability to deploy assets effectively into income producing activities. To further analyze the sources of net income, ROA can be decomposed into two underlying ratios, profit margin (PM) and asset turnover (AT) (e.g. Fairfield & Yohn 2001; Nissim & Penman 2001).

These two ratios represent different aspects of a company' value creation and give insights into a companies' competitive strategy. To achieve high profit margins,

companies have to differentiate themselves effectively from competitors so that each company can charge premium prices to their loyal customers. Thus, a high profit margin is often associated with a successful differentiation strategy. On the other hand, a high asset turnover reflects a firm's ability to operate and utilize its resources efficiently to generate sales revenue. Therefore high assets turnover reflects a cost leadership strategy (Porter, 1996; Fairfield & Yohn, 2001). Hence, this study uses five-year moving averages of profit margin and average assets turnover as proxies of the strategic position (differentiation and cost leadership) of selected enterprises.

B. Descriptive statistics

For describing the various characteristics and dimensions of quantitative data, different tools of descriptive statistics are used. Mean, median, minimum value, maximum value and standard deviation are used for analysis of secondary data.

C. Correlation analysis

In correlation analysis, the strength of linear relationship among the different variables is measured. Measurement of the strength of relationship between the two quantitative variables, X and Y is usually carried out by simple correlation coefficient, denoted by 'r'. Correlation analysis is useful in exploratory data analysis. It provides some guidelines for selecting independent variables in multiple regression analysis. In correlation analysis in this study, different variables such as profit margin, assets turnover, natural logarithm of change in costs and natural logarithm of change in sales revenue and including influence of different dummy variables are analyzed.

D. Regression analysis

Different regression models are used to predict the relations of each component. Begin by developing a regression model to evaluate this seventh research hypothesis on the asymmetric cost behavior based on the generic strategies followed by organizations.

Empirical model

$$\ln(\text{Cost}_{i,t}/\text{Cost}_{i,t-1}) = \alpha_0 + \beta_1 \ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1}) + \beta_2 \text{AvgPM}_{i,t} + \beta_3 \text{AvgATO}_{i,t} + \beta_4 \text{Dec}_{i,t} \ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1}) + \beta_5 \text{Dec}_{i,t} \text{AvgPM}_{i,t} \ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1}) + \beta_6 \text{Dec}_{i,t} \text{AvgATO}_{i,t} \ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1}) + \beta_7 \text{Dec}_{i,t} \text{SucDec}_{i,t} \ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1} + \varepsilon_{i,t} \dots \quad (i)$$

Where, $\ln(\text{Cost}_{i,t}/\text{Cost}_{i,t-1})$ is the natural logarithm of change in costs i.e. five-year moving average of representing selling, general and administrative cost (SGA) and cost of goods sold (COGS) of a firm i in a period t , $\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ is the natural logarithm of change in sales revenue representing five-year moving average of a firm i in a period t . $\text{AvgPM}_{i,t}$ refers to the five-year moving average of profit margin and it is a result of net profit after tax divided by sales revenue of a firm i in a period t . $\text{AvgATO}_{i,t}$ refers to the five-year moving average of assets turnover rate of firm i in a period t and it is a result of sales divided by total assets of a firm i in a period t .

“Dec” is a dummy variable, which equals 1 if the sales of a firm i in a period t decrease compared to the sales in the prior period $t-1$; otherwise, “Dec” equals zero. $\text{SucDec}_{i,t}$ a dummy equal to 1 for firm-period observations when revenue declined in the preceding period; otherwise 0.

5.4 Data and related results

I. Structure of factors effecting asymmetric cost behavior

Different financial tools are used in this study to measure asymmetric cost behavior of Nepalese enterprises which are change in sales ratio, change in cost ratio, net profit margin and assets turnover ratio.

A. Change in sales ratio

The position of change in sales ratio in comparison to previous year of 10 Nepalese listed manufacturing enterprises and 3 Nepalese listed hotel industries of 11 fiscal years are presented in table 5.6 and it presents growth rate of sales of current year on the basis of previous year. The average change in sales ratio in times varies from one enterprise to another. The average change on sales ratio is largest for HDL (1.316

times) followed by NBBUL (1.224 times), TRHL (1.223 times), NLOL (1.192 times), BNL (1.159 times), RJML (1.149 times), FHL (1.144 times), OHL (1.112 times), BNTL (1.108 times), SHL (1.108 times), SSML (1.107 times), UNL (1.106 times and GRUL (1.008 times).

The change in sales ratio varies widely within the individual enterprises. It varies from 0.973 time to 1.584 times for BNL, 0.882 time to 1.37 times for BNTL, 0.802 time to 1.267 times for UNL, 0.707 time to 2.272 times for NBBUL, 0.496 time to 1.551 times for GRUL, 0.672 time to 1.966 times for FHL, 0.691 time to 1.729 times for SSML, 0.976 time to 2.146 times for HDL, 0.868 time to 1.569 times for RJML, 0.63 time to 1.883 times for NLOL, 0.718 time to 1.423 times for OHL, 0.682 time to 1.46 times for SHL and 0.893 time to 1.552 times for TRHL.

On the basis of above result of average increase in sales revenue of 13 firms of 11 fiscal years each, it is indicated that highest growth rate of sales in fiscal year 2009/10 is (1.26 times), followed by 08/09 (1.23 times), 05/06 (1.22 times), 03/04 (1.2 times), 06/07 (1.2 times), 02/03 (1.17 times), 11/12 (1.17 times), 10/11 (1.08 times), 07/08 (1.04 times), 01/02 (1.04 times) and 04/05 (1.02 times). Weighted average of change in sales ratio in comparison to previous sales of 13 enterprises of 12 fiscal years is 1.15 times.

Result of standard deviation which is computed on the basis of average value of change in sales ratio in comparison to previous sales of 11 fiscal years of individual company is largest for NBBUL (0.513 time), followed by FHL (0.414 time), NLOL (0.389 time), HDL (0.345 time), SSML (0.339 time), GRUL (0.266 time), RJML (0.228 time), SHL (0.22 time), OHL (0.199 time), TRHL (0.187 time), BNL (0.184 time), BNTL (0.18 time) and UNL (0.146 time). Similarly, the value of standard deviation which is the result on the basis of average change in sales ratio in comparison to previous year of 13 enterprises of each fiscal year is largest for fiscal year 2002/03 (0.42 time) followed by 03/04 (0.41 time), 01/02 (0.35 time), 11/12 (0.31 time), 05/06 (0.3 time), 04/05 (0.25 time), 08/09 (0.24 time), 09/10 (0.23 time), 06/07 (0.21 time), 10/11 (0.21 time) and 07/08 (0.17 time).

Table 5.6**Change in sales ratio of the selected enterprises for the period of 2000/01 - 2011/12 (Times)**

| Firm/Fiscal year | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 1.019 | 1.138 | 1.037 | 0.973 | 1.012 | 1.02 | 1.177 | 1.343 | 1.584 | 1.166 | 1.28 | 1.159 | 0.184 |
| BNTL | 1.088 | 1.009 | 0.928 | 0.929 | 0.882 | 1.37 | 0.98 | 1.307 | 1.361 | 1.129 | 1.211 | 1.108 | 0.18 |
| UNL | 0.802 | 1.007 | 1.225 | 0.972 | 0.969 | 1.267 | 1.179 | 1.224 | 1.163 | 1.164 | 1.19 | 1.106 | 0.146 |
| NBBUL | 1.155 | 0.721 | 2.272 | 1.356 | 0.901 | 1.671 | 0.707 | 1.652 | 1.484 | 0.66 | 0.88 | 1.224 | 0.513 |
| GRUL | 0.935 | 1.052 | 0.877 | 0.97 | 1.182 | 0.903 | 0.839 | 1.551 | 1.243 | 1.039 | 0.496 | 1.008 | 0.266 |
| FHL | 0.672 | 1.837 | 0.765 | 0.815 | 1.966 | 1.195 | 1.188 | 1.027 | 0.887 | 1.135 | 1.097 | 1.144 | 0.414 |
| SSML | 0.8 | 1.024 | 1.139 | 0.691 | 1.517 | 0.881 | 1.32 | 0.715 | 1 | 1.354 | 1.729 | 1.107 | 0.339 |
| HDL | 1.067 | 2.146 | 1.545 | 1.442 | 1.167 | 1.24 | 0.976 | 1.003 | 1.56 | 1.058 | 1.272 | 1.316 | 0.345 |
| RJML | 1.432 | 0.868 | 1.043 | 1.262 | 0.991 | 1.369 | 0.911 | 1.126 | 1.569 | 1.066 | 1.003 | 1.149 | 0.228 |
| NLOL | 1.883 | 0.876 | 0.711 | 1.394 | 1.26 | 1.238 | 0.91 | 1.389 | 1.157 | 0.63 | 1.666 | 1.192 | 0.389 |
| OHL | 0.718 | 0.991 | 1.423 | 0.859 | 1.299 | 1.173 | 1.052 | 1.187 | 1.135 | 1.217 | 1.173 | 1.112 | 0.199 |
| SHL | 0.682 | 1.014 | 1.234 | 0.767 | 1.46 | 1.25 | 1.117 | 1.22 | 1.144 | 1.148 | 1.15 | 1.108 | 0.22 |
| TRHL | 1.33 | 1.552 | 1.458 | 0.893 | 1.288 | 1.073 | 1.155 | 1.272 | 1.131 | 1.227 | 1.07 | 1.223 | 0.187 |
| Mean | 1.04 | 1.17 | 1.2 | 1.02 | 1.22 | 1.2 | 1.04 | 1.23 | 1.26 | 1.08 | 1.17 | 1.15 | |
| S.D. | 0.35 | 0.42 | 0.41 | 0.25 | 0.3 | 0.21 | 0.17 | 0.24 | 0.23 | 0.21 | 0.31 | | |

Source: Annual audit report of individual company of each year

B. Change in cost ratio

The position of change in cost ratio of 10 Nepalese listed manufacturing enterprises and 3 Nepalese listed hotel industries of 12 fiscal years are presented in table 5.7 and it presents the growth rate of cost on the basis of the cost of previous year. The average change in cost ratio in times varies from one enterprise to another. The average change on cost ratio is largest for HDL (1.28 times) followed by NBBUL (1.22 times), NLOL (1.184 times), BNL (1.165 times), RJML (1.149 times), OHL (1.113 times), TRHL (1.126 times), SSML (1.123 times), BNTL (1.1 times), UNL (1.094 times), FHL (1.089 times), SHL (1.057 times) and GRUL (1.017 times).

The change in cost ratio varies widely within the individual enterprises. It varies from 0.993 time to 1.364 times for BNL, 0.903 time to 1.383 times for BNTL, 0.814 time to 1.295 times for UNL, 0.622 time to 2.087 times for NBBUL, 0.593 time to 1.355 times for GRUL, 0.697 time to 1.58 times for FHL, 0.66 time to 1.637 times for SSML, 0.993 time to 1.81 times for HDL, 0.88 time to 1.59 times for RJML, 0.617 time to 1.718 times for NLOL, 0.678 time to 1.407 times for OHL, 0.856 time to 1.205 times for SHL and 0.969 time to 1.395 times for TRHL.

On the basis of above result of average increase in cost ratio of 13 firms of 11 fiscal years each, it is indicated that highest cost increase rate in fiscal year 2009/10 is (1.233) times followed by 06/07 (1.215 times), 08/09 (1.202 times), 11/12 (1.164 times), 03/04 (1.133 times), 05/06 (1.127 times), 10/11 (1.118 times), 02/03 (1.107 times), 04/05 (1.075 times), 01/02 (1.04 times) and 07/08 (1.038 times). Weighted average of change in cost ratio in comparison to previous cost of 13 enterprises of 12 fiscal years is 1.132 times.

Result of standard deviation which is computed on the basis of average value of change in cost ratio in comparison to previous cost of 11 fiscal years of individual company is largest for NBBUL (0.47 time), followed by NLOL (0.365 time), SSML (0.314 time), HDL (0.248 time), FHL (0.247 time), RJML (0.222 time), GRUL (0.218 time), OHL (0.182 time), TRHL (0.157 time), BNTL (0.154 time), UNL (0.153 time), BNL (0.133 time) and SHL (0.129 time). Similarly, the value of standard deviation which is the result on the basis of average change in cost ratio in comparison to previous years of 13 enterprises of each fiscal year is largest for fiscal year 2003/04 (0.351 time) followed by 01/02 (0.297 time), 11/12 (0.29 time), 02/03 (0.254 time), 10/11 (0.253 time), 04/05 (0.252 time), 08/09 (0.223 time), 05/06 (0.213 time), 09/10 (0.192 time), 06/07 (0.181 time) and 07/08 (0.172 time).

Table 5.7**Change in cost ratio of the selected enterprises for the period of 2000/01 - 2011/12 (Times)**

| Firm/Fiscal year | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 1.101 | 1.221 | 0.993 | 0.976 | 1.018 | 1.14 | 1.17 | 1.29 | 1.364 | 1.223 | 1.317 | 1.165 | 0.133 |
| BNTL | 1.134 | 1.072 | 0.903 | 0.96 | 0.907 | 1.303 | 1.016 | 1.168 | 1.073 | 1.383 | 1.183 | 1.1 | 0.154 |
| UNL | 0.814 | 0.951 | 1.197 | 0.931 | 0.964 | 1.295 | 1.119 | 1.223 | 1.149 | 1.195 | 1.199 | 1.094 | 0.153 |
| NBBUL | 1.164 | 0.802 | 2.087 | 1.342 | 0.917 | 1.689 | 0.704 | 1.64 | 1.507 | 0.622 | 0.945 | 1.22 | 0.47 |
| GRUL | 0.883 | 1.029 | 0.916 | 0.957 | 1.223 | 0.904 | 0.9 | 1.355 | 1.261 | 1.167 | 0.593 | 1.017 | 0.218 |
| FHL | 0.697 | 1.172 | 0.725 | 1.283 | 1.58 | 1.148 | 0.97 | 1.166 | 0.999 | 1.075 | 1.16 | 1.089 | 0.247 |
| SSML | 0.82 | 1.113 | 1.088 | 0.66 | 1.45 | 1.243 | 1.078 | 0.666 | 1.204 | 1.397 | 1.637 | 1.123 | 0.314 |
| HDL | 1.185 | 1.81 | 1.432 | 1.472 | 1.171 | 1.211 | 0.993 | 1.017 | 1.473 | 1.036 | 1.277 | 1.28 | 0.248 |
| RJML | 1.416 | 0.88 | 1.041 | 1.286 | 1.04 | 1.3 | 0.923 | 1.133 | 1.59 | 1.047 | 0.978 | 1.149 | 0.222 |
| NLOL | 1.718 | 0.903 | 0.736 | 1.412 | 1.287 | 1.188 | 0.923 | 1.404 | 1.14 | 0.617 | 1.701 | 1.184 | 0.365 |
| OHL | 0.678 | 1.238 | 1.159 | 0.955 | 1.062 | 1.119 | 1.407 | 1.187 | 1.127 | 1.186 | 1.129 | 1.113 | 0.182 |
| SHL | 0.856 | 0.991 | 1.173 | 0.899 | 0.893 | 1.205 | 1.083 | 1.164 | 1.117 | 1.195 | 1.049 | 1.057 | 0.129 |
| TRHL | 1.051 | 1.214 | 1.281 | 0.841 | 1.145 | 1.047 | 1.208 | 1.211 | 1.026 | 1.395 | 0.969 | 1.126 | 0.157 |
| Mean | 1.04 | 1.107 | 1.133 | 1.075 | 1.127 | 1.215 | 1.038 | 1.202 | 1.233 | 1.118 | 1.164 | 1.132 | |
| S.D. | 0.297 | 0.254 | 0.351 | 0.252 | 0.213 | 0.181 | 0.172 | 0.223 | 0.192 | 0.253 | 0.29 | | |

Source: Annual audit report of individual company of each year

C. Profit margin

The percentage of net profit margin of 13 selected enterprises of 12 fiscal years is presented in table 5.8. The average net profit margin ratio varies from one enterprise to another. The average net profit margin is largest for UNL (12.86 percent) followed by BNTL (8.35 percent), BNL (5.8 percent), NLOL (1.65 percent), RJML (0.52 percent), NBBUL (0.44 percent), SHL (-0.23 percent), SSML (-2.71 percent), OHL (-15.01 percent), GRUL (-18.05 percent) and HDL (-19.33 percent) TRHL (-28.59 percent and FHL (-34.6 percent). Profit margin ratio varies widely within the individual enterprises. It varies from -4.78 percent to 13.04 percent for BNL, -7.35 percent to 17.91 percent for BNTL, 3.45 percent to 18.87 percent for UNL, -9.59 percent to 3.03 percent for NBBUL, -25.93 percent to 2.21 percent for GRUL, -59.59 percent to -2.46 percent for FHL, -24.77 percent to 35.3 percent for SSML, -111.72 percent to 5.66 percent for HDL, -2.77 percent to 3.79 percent for RJML, -3.05 percent to 4.57 percent for NLOL, -68.87 percent to 16.92 percent for OHL, -32.47 percent to 16.75 percent for SHL and -126.05 percent to 11.54 percent for TRHL.

UNL earns profit of all fiscal years, BNTL earns profit of all fiscal years except 2005/06 and BNL earns profit of all fiscal years except fiscal year 2006/07 and 2007/08. NLOL earns profit except fiscal year 2000/01. Similarly, NBBUL earns profit except fiscal year 2002/03 and RJML earns profit except three fiscal years which is 2007/08 to 2009/10. FHL is suffered from loss of all fiscal years. The second weak firm is TRHL on the basis of average profit margin but it suffered from loss up to 2007/08 than after it earns profit. Third weak firm is HDL but it has earned profit in four fiscal years. Fourth weak firm is GRUL but it is suffered from loss of eleven fiscal years. Fifth weak enterprise is OHL and it is suffered from loss up to 2005/06 after that it has earned profit. Sixth weak enterprise is SSML its beginning period is good but its present period is not good. Seventh weak enterprise is SHL but its position after 2006/07 is good. The position of average profit margin of 13 firms of each 12 fiscal years is negative up to 2006/07 and it is positive after that. Largest positive profit margin is for fiscal year 2009/10 (3.12 percent), 10/11 (2.83 percent), 11/12 (1.96 percent), 07/08 (1.19 percent) and 08/09 (0.66) percent but these values are minimum and largest negative margin is for fiscal year 2001/02 (-22.3 percent), followed by 02/03 (-20.73 percent), 00/01 (-18.21 percent), 04/05 (-13.58 percent), 03/04 (-9.55 percent), 05/06 (-7.39 percent) 06/07 (-0.07 percent.). Weighted average percentage of profit margin of 13 enterprises of 12 fiscal years is -6.84 percent.

Result of standard deviation which is computed on the basis of average percentage of profit margin of 12 fiscal years of individual company is largest for TRHL (40.01 percent) followed by HDL (38.50 percent), OHL (29.62 percent), FHL (29.31 percent), SHL (16.02 percent), SSML (15.15 percent), GRUL (11.05 percent), BNTL (6.98 percent), BNL (5.52 percent), UNL (5.37 percent), NBBUL (3.23 percent), NLOL (1.93) percent) and RJML (1.82 percent). Similarly, the value of standard deviation which is the result on the basis of average percentage profit margin of 13 enterprises of each fiscal year is largest for fiscal year 2001/02 (39.98 percent) followed by 02/03 (37.75 percent), 00/01 (35.36 percent), 04/05 (24.55 percent), 03/04 (18.25 percent), 11/12 (18.14 percent), 06/07 (15.91 percent), 05/06 (15.79 percent), 09/10 (14.17 percent), 10/11 (13.3 percent), 08/09 (10.28 percent) and 07/08 (6.2 percent).

Table 5.8**Net profit margin in percentage of the selected enterprises for the period of 2000/01 - 2011/12 (Percent)**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| BNL | 9.97 | 9.08 | 3.18 | 5.98 | 5.65 | 4.01 | -4.78 | -1.53 | 2.05 | 11.18 | 13.04 | 11.81 | 5.8 | 5.52 |
| BNTL | 9.98 | 8.48 | 5.71 | 4.52 | 4.06 | -7.35 | 10.12 | 2.91 | 12.65 | 15.76 | 15.41 | 17.91 | 8.35 | 6.98 |
| UNL | 4.42 | 3.45 | 7.48 | 9.23 | 12.77 | 16.6 | 14.47 | 15.63 | 16.91 | 18.87 | 17.15 | 17.38 | 12.86 | 5.37 |
| NBBUL | 0.65 | 0.93 | -9.59 | 1.77 | 3.03 | 1.25 | 1.14 | 0.39 | 1.96 | 0.89 | 1.29 | 1.52 | 0.44 | 3.23 |
| GRUL | -25.93 | -19.08 | -14.03 | -21.72 | -20.78 | -20.28 | -20.55 | -3.57 | -19.36 | 2.21 | -11.61 | -41.91 | -18.05 | 11.05 |
| FHL | -51.27 | -114 | -30.27 | -21.62 | -59.59 | -28.88 | -22.39 | -2.46 | -12.87 | -26.02 | -19.64 | -26.23 | -34.6 | 29.31 |
| SSML | 4.14 | 1.3 | -5.95 | 1.42 | 3.55 | -2.27 | 35.3 | -6.67 | -7.43 | -24.77 | -22.49 | -8.65 | -2.71 | 15.15 |
| HDL | -111.72 | -86.44 | -23.33 | -12.24 | -5.78 | -4.44 | 0.44 | -0.67 | -2.84 | 3.72 | 5.66 | 5.63 | -19.33 | 38.5 |
| RJML | 0.35 | 1.26 | 1.29 | 1.88 | 1.04 | 3.79 | 1.06 | -1.94 | -2.77 | -1.44 | 0.09 | 1.61 | 0.52 | 1.82 |
| NLOL | -3.05 | 4.57 | 3.56 | 0.36 | 2.59 | 0.12 | 1.28 | 1.39 | 1.87 | 2.29 | 2.45 | 2.33 | 1.65 | 1.93 |
| OHL | -31.84 | -62.81 | -68.87 | -25.63 | -34.89 | -10.04 | 1.12 | 6.84 | 3.48 | 11.13 | 14.48 | 16.92 | -15.01 | 29.62 |
| SHL | 4.97 | -20.12 | -12.59 | -11.99 | -32.47 | -4.46 | 4.4 | 9.48 | 13.82 | 15.18 | 14.32 | 16.75 | -0.23 | 16.02 |
| TRHL | -47.46 | -16.5 | -126.05 | -56.05 | -55.7 | -44.14 | -22.55 | -4.28 | 1.09 | 11.54 | 6.6 | 10.37 | -28.59 | 40.01 |
| Mean | -18.21 | -22.3 | -20.73 | -9.55 | -13.58 | -7.39 | -0.07 | 1.19 | 0.66 | 3.12 | 2.83 | 1.96 | -6.84 | |
| S.D. | 35.36 | 39.98 | 37.75 | 18.25 | 24.55 | 15.79 | 15.91 | 6.2 | 10.28 | 14.17 | 13.3 | 18.14 | | |

Source: Annual audit report of individual company of each year

D. Assets turnover ratio

The position of assets utilization i.e. sales is scaled by total assets of 10 Nepalese listed manufacturing enterprises and 3 Nepalese listed hotel industries of 12 fiscal years are presented in table 5.9. The average assets turnover ratio in times varies from one enterprise to another. The average assets turnover ratio is largest for UNL (1.92 times) followed by RJML (1.39 times), NBBUL (1.23 times), NLOL (1.03 times), HDL (0.96 time), BNTL (0.84 time), SSML (0.75 time), BNL (0.74 time), SHL (0.7 time), GRUL (0.61 time), FHL (0.5 time), OHL (0.27 time), and TRHL (0.15 time).

It varies from 0.51 time to 1.21 time for BNL, 0.65 time to 1.09 time for BNTL, 1.35 time to 2.36 time for UNL, 0.76 time to 1.7 time for NBBUL, 0.42 time to 0.9 time for GRUL, 0.27 time to 0.66 time for FHL, 0.43 time to 1.82 time for SSML, 0.15 time to 1.99 time for HDL, 1.01 time to 1.91 time for RJML, 0.65 time to 1.33 time for NLOL, 0.14 time to 0.4 time for OHL, 0.42 time to 0.97 time for SHL and 0.04 time to 0.33 time for TRHL. When the average value of sales to total assets is computed of 12 fiscal years each, the size of assets turnover ratio is largest for 2011/12 (1.11 times) followed by 09/10 (1.07 times), 10/11 (1.05 times), 08/09 (0.99 time), 07/08 (0.9 time), 06/07 (0.9 time), 05/06 (0.79 time), 03/04 (0.74 time), 04/05 (0.73 time), 01/02 (0.68 time), 00/01 (0.64 time) and 02/03 (0.63 time). Weighted average times of assets turnover ratio of 13 enterprises of 12 fiscal years is 0.85 time.

Result of standard deviation which is computed on the basis of average times of assets turnover ratio of 12 fiscal years of individual company is largest for HDL (0.57 time) followed by SSML (0.37 time), UNL (0.33 time), NBBUL (0.32 time), RJML (0.28 time), BNL (0.24 time), NLOL (0.22 time), SHL (0.2 time), BNTL (0.15time), FHL (0.15 time), GRUL (0.14 time), OHL (0.1 time) and TRHL (0.1 time). Similarly, the value of standard deviation which is the result on the basis of average assets turnover ratio of 13 enterprises of each fiscal year is largest for fiscal year 2011/12 (0.64 time) followed by 2001/02 (0.59 time), 10/11 (0.58 time), 09/10 (0.55 time), 04/05 (0.51 time), 08/09 (0.51 time), 06/07 (0.51 time), 00/01 (0.5 time), 03/04 (0.49 time), 07/08 (0.47 time), 02/03 (0.41 time) and 05/06 (0.4 time).

Table 5.9**Total assets turnover ratio of the selected enterprises for the period of 2000/01 - 2011/12 (Times)**

| Firm/Fiscal year | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Mean | S.D. |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------|------|
| BNL | 0.51 | 0.52 | 0.59 | 0.71 | 0.63 | 0.59 | 0.51 | 0.63 | 0.8 | 1.09 | 1.03 | 1.21 | 0.74 | 0.24 |
| BNTL | 0.66 | 0.69 | 0.71 | 0.75 | 0.65 | 0.85 | 0.93 | 1.09 | 1.02 | 0.99 | 0.91 | 0.78 | 0.84 | 0.15 |
| UNL | 2.03 | 2.16 | 1.59 | 1.62 | 1.35 | 1.48 | 1.85 | 1.97 | 2.17 | 2.21 | 2.36 | 2.2 | 1.92 | 0.33 |
| NBBUL | 0.88 | 0.93 | 0.76 | 1.65 | 1.7 | 1.41 | 1.55 | 1.16 | 1.27 | 1.5 | 1.01 | 0.98 | 1.23 | 0.32 |
| GRUL | 0.49 | 0.47 | 0.57 | 0.53 | 0.55 | 0.67 | 0.62 | 0.54 | 0.71 | 0.8 | 0.9 | 0.42 | 0.61 | 0.14 |
| FHL | 0.37 | 0.27 | 0.43 | 0.32 | 0.28 | 0.53 | 0.65 | 0.65 | 0.66 | 0.56 | 0.63 | 0.61 | 0.5 | 0.15 |
| SSML | 0.62 | 0.5 | 0.47 | 0.57 | 0.43 | 0.7 | 0.56 | 0.88 | 0.77 | 0.81 | 0.85 | 1.82 | 0.75 | 0.37 |
| HDL | 0.15 | 0.17 | 0.38 | 0.62 | 0.81 | 0.97 | 1.13 | 1.12 | 1.17 | 1.48 | 1.56 | 1.99 | 0.96 | 0.57 |
| RJML | 1.01 | 1.35 | 1.21 | 1.25 | 1.48 | 1.04 | 1.38 | 1.23 | 1.42 | 1.72 | 1.91 | 1.71 | 1.39 | 0.28 |
| NLOL | 0.65 | 1.18 | 0.83 | 0.74 | 0.93 | 1.02 | 1.3 | 1.11 | 1.33 | 1.18 | 0.92 | 1.2 | 1.03 | 0.22 |
| OHL | 0.18 | 0.14 | 0.14 | 0.2 | 0.18 | 0.24 | 0.28 | 0.3 | 0.35 | 0.39 | 0.4 | 0.38 | 0.27 | 0.1 |
| SHL | 0.67 | 0.46 | 0.42 | 0.53 | 0.45 | 0.65 | 0.78 | 0.86 | 0.97 | 0.9 | 0.89 | 0.85 | 0.7 | 0.2 |
| TRHL | 0.04 | 0.04 | 0.07 | 0.1 | 0.09 | 0.12 | 0.13 | 0.16 | 0.21 | 0.24 | 0.3 | 0.33 | 0.15 | 0.1 |
| Mean | 0.64 | 0.68 | 0.63 | 0.74 | 0.73 | 0.79 | 0.9 | 0.9 | 0.99 | 1.07 | 1.05 | 1.11 | 0.85 | |
| S.D. | 0.5 | 0.59 | 0.41 | 0.49 | 0.51 | 0.4 | 0.51 | 0.47 | 0.51 | 0.55 | 0.58 | 0.64 | | |

Source: Annual audit report of individual company of each year

II. Descriptive statistics

Table 5.10 offers descriptive statistics on the strategic variables which are the natural logarithm of change in costs, natural logarithm of change in sales revenue, profit margin, assets turnover rate, interaction of Dec and natural logarithm of change in sales revenue, interaction of Dec, profit margin and natural logarithm of change in sales revenue, interaction of Dec, assets turnover rate and natural logarithm of change in sales revenue and interaction of Dec, SucDec and natural logarithm of change in sales revenue. All data are computed on the basis of five-year moving average.

Table 5.10
Descriptive statistics

| | Unit | N | Mean | Median | Std. Deviation | Minimum | Maximum |
|--|-------|----|---------|---------|----------------|---------|---------|
| $\ln(\text{Cost}_{i,t}/\text{Cost}_{i,t-1})$ | Ratio | 91 | 0.10735 | 0.10529 | 0.07327 | -0.0449 | 0.30762 |
| $\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ | “ | 91 | 0.11761 | 0.12534 | 0.08068 | -0.0528 | 0.32305 |
| AvgPM _{i,t} | “ | 91 | 0.07886 | 0.0336 | 0.1067 | 0.00032 | 0.58641 |
| AvgATO _{i,t} | “ | 91 | 2.53544 | 0.769 | 5.46295 | 0.13751 | 27.1395 |
| Dec _{i,t} ln(Rev _{i,t} /Rev _{i,t-1}) | | 91 | -0.002 | 0 | 0.00772 | -0.0528 | 0 |
| Dec _{i,t} AvgPM _{i,t} ln(Rev _{i,t} /Rev _{i,t-1}) | | 91 | -0.0002 | 0 | 0.00098 | -0.0088 | 0 |
| Dec _{i,t} AvgATO _{i,t} ln(Rev _{i,t} /Rev _{i,t-1}) | | 91 | -0.0013 | 0 | 0.00491 | -0.0263 | 0 |
| DecSucitDec _{i,t} ln(Rev _{i,t} /Rev _{i,t-1}) | | 91 | -0.002 | 0 | 0.00772 | -0.0528 | 0 |

Mean (S.D.) of natural logarithm of change in costs is 0.10735 (0.07327), minimum and maximum value is -0.0449 and 0.30762 respectively. Mean (S.D.) of natural logarithm of change in sales revenue is 0.11761(0.08068), minimum and maximum value is -0.0528 and 0.32305 respectively. Mean (S.D.) of profit margin is 0.07886 (0.1067), minimum and maximum value is 0.00032 and 0.58641 respectively. Mean (S.D.) of assets turnover rate is 2.53544 (5.46295), minimum and maximum value is 0.13751 and 27.1395 respectively. Mean (S.D.) of interaction of Dec and natural logarithm of change in sales revenue is -0.002(0.00772), minimum and maximum value is -0.0528 and nil respectively.

Similarly, mean (S.D.) of interaction of Dec, average profit margin and change in natural logarithm of sales ratio is -0.0002 (0.00098), minimum and maximum value is -0.0088 and 0 respectively. Mean (S.D.) of interaction of Dec, average total assets turnover rate and natural logarithm of change in sales ratio is -0.0013 (0.00491). Minimum and maximum value is -0.0263 and 0 respectively. Mean (S.D.) of

interaction of DecSucDec natural logarithm of change in sales ratio is -0.002(0.00772). Minimum and maximum value is -0.0528 and nil respectively. Number of observation of firm year is 91.

III. Correlation analysis

Table 5.11 presents the result of correlation analysis of the strategic variables which are the natural logarithm of change in costs, natural logarithm of change in sales revenue, profit margin, assets turnover rate, interaction of Dec and natural logarithm of change in sales revenue, interaction of Dec, profit margin and natural logarithm of change in sales revenue, interaction of Dec, assets turnover rate and natural logarithm of change in sales revenue and interaction of Dec, SucDec and natural logarithm of change in sales revenue.

Table 5.11
Correlation analysis

| | $\ln(\text{Cost}_{i,t}/\text{Cost}_{i,t-1})$ | $\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ | $\text{AvgPM}_{i,t}$ | $\text{AvgATO}_{i,t}$ | $\text{Dec}_{i,t}\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ | $\text{Dec}_{i,t}\text{AvgPM}_{i,t}\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ | $\text{Dec}_{i,t}\text{AvgATO}_{i,t}\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ | $\text{DecSucitDec}_{i,t}\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ |
|---|--|--|----------------------|-----------------------|--|--|---|--|
| $\ln(\text{Cost}_{i,t}/\text{Cost}_{i,t-1})$ | 1 | | | | | | | |
| $\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ | .886* | 1 | | | | | | |
| $\text{AvgPM}_{i,t}$ | 0.194*** | 0.05 | 1 | | | | | |
| $\text{AvgATO}_{i,t}$ | .219** | 0.14 | .605* | 1 | | | | |
| $\text{Dec}_{i,t}\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ | .450* | .484* | 0.066 | 0.087 | 1 | | | |
| $\text{Dec}_{i,t}\text{AvgPM}_{i,t}\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ | -.222** | -.259** | -.0175** | -0.113 | -.664* | 1 | | |
| $\text{Dec}_{i,t}\text{AvgATO}_{i,t}\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ | .465* | .487* | 0.022 | 0.03 | .956* | -.505* | 1 | |
| $\text{DecSucitDec}_{i,t}\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ | .450* | .484* | 0.066 | 0.087 | 1.000* | -.664* | .956* | 1 |

Note: * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels Pearson correlation

Correlation between natural logarithm of change in costs and natural logarithm of change in sales revenue is high degree of positive at 1 percent level. Correlation between natural logarithm of change in costs with profit margin and with assets turnover rate is low degree of positive at 10 percent and 5 percent level respectively.

Correlation between profit margin and assets turnover rate is moderate degree of positive correlation at 1 percent level. Correlation coefficient between natural logarithm of change in cost ratio and interaction of Dec, profit margin and natural logarithm of change in sales ratio is low degree of inverse relation which is significant at 5 percent level but correlation coefficient between natural logarithm of change in cost ratio with interaction of Dec, natural logarithm of change in sales ratio; interaction of DecSucDec natural logarithm of change in sales ratio; interaction of Dec, assets turnover rate and natural logarithm of change in sales ratio is low degree of positive relation at 1 percent level.

IV. Regression analysis

A relationship between natural logarithm of change in costs, natural logarithm of change in sales revenue, interaction of Dec, profit margin and natural logarithm of change in sales revenue, interaction of Dec, assets turnover rate and natural logarithm of change in sales revenue can be expressed by the following formula:

$$\ln(\text{Cost}_{i,t}/\text{Cost}_{i,t-1}) = \alpha_0 + \beta_1 \ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1}) + \beta_2 \text{Dec}_{i,t} \text{AvgPM}_{i,t} \ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1}) + \beta_3 \text{Dec}_{i,t} \text{AvgATO}_{i,t} \ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1}) + \varepsilon_{i,t} \dots \text{ (i)}$$

Where, $\ln(\text{Cost}_{i,t}/\text{Cost}_{i,t-1})$ = Natural logarithm of five-year moving average of sum of cost of goods sold + selling, general and administrative expenses of a firm *i* in a period *t* divided by natural logarithm of five-year moving average of sum of cost of goods sold + selling, general and administrative expenses of a firm *i* in a period *t-1*.

$\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ = Natural logarithm of five-year moving average of sales revenue of a firm *i* in a period *t* divided by natural logarithm of five-year moving average of sales revenue of a firm *i* in a period *t-1*

$\text{Dec}_{i,t} \text{AvgPM}_{i,t} \ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ = Interaction of $\text{Dec}_{i,t}$ (“Dec” is a dummy variable, which equals 1 if the sales of a firm *i* in a period *t* decrease compared to the sales in the prior year *t-1*; otherwise, “Dec” equals zero of a firm *i* in a period *t*), $\text{AvgPM}_{i,t}$ (Five-year moving average of net profit after tax of a firm *i* in a period *t*) and $\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ is natural logarithm of five-year moving average of sales revenue of a firm *i* in a period *t* divided by natural logarithm of five-year moving average of sales revenue of a firm *i* in a period *t-1*.

$Dec_{i,t}AvgATO_{i,t}ln(Rev_{i,t}/Rev_{i,t-1})$ = Interaction of $Dec_{i,t}$, $AvgATO_{i,t}$ (Five-year moving average of assets turnover ratio of a firm i in a period t which is calculated by sales/total assets) and $ln(Rev_{i,t}/Rev_{i,t-1})$

α_0 = constant value, β_1 , β_2 , β_3 are slopes of independent variables and $\epsilon_{i,t}...$ is error term.

It is approved that there is heteroscedasticity problem through Glejser test. Dependent and all independent variables have been divided by unstandardized predicted variables to minimize heteroscedasticity problem. After completion of remedial measure, regression model is $Remln(Cos_{i,t}/Cost_{i,t-1}) = \alpha_0 + Rem\beta_1ln(Rev_{i,t}/Rev_{i,t-1}) + Rem\beta_2Dec_{i,t}AvgPM_{i,t}ln(Rev_{i,t}/Rev_{i,t-1}) + Rem\beta_3Dec_{i,t}AvgATO_{i,t}ln(Rev_{i,t}/Rev_{i,t-1}) + \epsilon_{i,t}...$

The computed values of the regression equation for the selected enterprises are presented in table 5.12.

Table 5.12

Regression result of natural logarithm of change in costs, natural logarithm of change in sales revenue, Interaction of Dec, profit margin and natural logarithm of change in sales revenue and interaction of Dec, assets turnover rate and natural logarithm of change in sales revenue

| $ln(Cos_{i,t}/Cost_{i,t-1})$ | $=\beta_0$ | β_1 $ln(Rev_{i,t}/Rev_{i,t-1})$ | $+\beta_2$ $Dec_{i,t}AvgPM_{i,t}ln(Rev_{i,t}/Rev_{i,t-1})$ | β_3 $Dec_{i,t}AvgATO_{i,t}ln(Rev_{i,t}/Rev_{i,t-1})$ | $\epsilon_{i,t}$... |
|---|------------|--|---|---|-------------------------|
| Intercept/Coefficients | -1.753* | 2.647* | -17.856* | 1.781* | |
| S.E | 0.229 | 0.226 | 2.939 | 0.485 | |
| t | -7.645 | 11.732 | -6.076 | 3.674 | |
| VIF | | 2.76 | 2.226 | 3.047 | |
| $R^2 = 0.811$ | | $F = 124.793^*$ | | $D.W. = 2.019$ | |
| Number of Observations, d.f. = 91,87 Note: * Significant at 0.01 level | | | | | |
| ** Significant at 0.05 levels *** Significant at 0.10 levels | | | | | |

The present study hypothesized that other thing is remaining the same; cost stickiness of firms pursuing a differentiation strategy is higher than that of firms following a low cost strategy i.e. hypothesis seven. The explanatory power of the model is reasonably high given as the R^2 is estimated at 81.1 percent. The F-statistic is also statistically

significant at 1 percent. The value of DW 2.019 indicates that there is no autocorrelation. Coefficient values of all independent variables are statistically significant at 1 percent level. Coefficient value of $\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ and $\text{Dec}_{i,t}\text{AvgATO}_{i,t}\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ is positive but coefficient value of $\text{Dec}_{i,t}\text{AvgPM}_{i,t}\ln(\text{Rev}_{i,t}/\text{Rev}_{i,t-1})$ is negative. The empirical results as per prior expectation support hypothesis seven i.e. cost stickiness of firms pursuing a differentiation strategy is higher than that of firms following a low cost strategy. High Avg(PM) as a proxy for a differentiation strategy and high avg(ATO) as a proxy for a cost leadership strategy (Banker, *et al.*, 2013).

5.5 Discussion

Differentiation and cost leadership are two broad generic strategies to achieve a competitive advantage in the marketplace (Porter, 1980). Firms following a differentiation strategy can successfully differentiate themselves from their competitors by being a technology leader or by creating a high degree of customer intimacy (Porter, 1996). To achieve these strategic goals, a differentiator needs to invest significant resources in key areas, such as scientific research, new product development, brand building, marketing and advertisement, employee training, quality control, and/or fast delivery (Porter, 1980; White, 1986; Ward & Duray, 2000).

These resource investments can eventuate into intangible assets, such as human and organization capital, which represents the core capability of the differentiator. However, these resources are often immobile or imperfectly mobile because they are only specialized to the strategic needs of the differentiator. In other words, specialized resources such as human capital or tacit know-how, either have no other use outside the firm, or have higher economic value for the differentiator than for other firms due to co-specialized assets (Peteraf, 1993).

As a result, a differentiator cannot sell its resources, such as the knowledge of its scientists and R&D staff, workers with special production skills, sophisticated sales and advertising staff, managers familiar with organizational culture and routines, or certain specialized production facilities on the factor market at a price commensurate with the

value of the resources to the differentiator (Williamson, 1979; Teece, Pisano & Shuen, 1997). As a result, the adjustment cost to reduce these specialized resources is likely to be much higher for differentiators.

Consequently, when sales decline, a differentiator is more likely than a cost leader to carry slack capacity resources to the next period, as long as the adjustment costs exceed the cost savings of cutting resources. On the other hand, specialized resources are often inelastic in supply, because such resources need long periods of time to develop and cannot be bought from factor markets directly (Barney, 2001; Peteraf, 1993). For instance, differentiators have to invest substantial resources in employee recruitment or training programs to assemble a team of skilled and talented R&D staff, production workers and sales force. This means that differentiators also face high upward adjustment costs of capacity resources.

Given a contemporaneous decrease in sales, differentiators have to take into account the high upward adjustment when sales recover in the future, and thus are reluctant to cut resources in current period (Banker & Byzalov, 2013). Therefore, this study expects that the differentiators exhibit higher cost stickiness than other firms when sales decline.

Cost leaders often have an organizational arrangement of low autonomy (with tight control) and frequent reporting (White, 1986). When sales fall cost leaders reduce their unused capacity quickly to avoid a loss. Relative to differentiators, cost leaders can more easily increase their resources to mirror sales increases as the acquired resources are not as unique or specialized as the differentiators. Hence, this study expects that facing sales decreases, differentiators will carry more unused capacity resources to save adjustment costs than cost leaders.

Different statistical tools have been used to analyze the descriptive statistics, correlation analysis and multiple regression analysis. In the perspective of correlation result, correlation coefficient between natural logarithm of change in cost ratio and interaction of Dec, profit margin and natural logarithm of change in sales ratio is low degree of inverse relation at 5 percent level but correlation coefficient between natural logarithm

of change in cost ratio and interaction of Dec, assets turnover rate and natural logarithm of change in sales ratio is low degree of positive relation which is significant at 1 percent level.

From the perspective of multiple regression result, before dependent variable is regressed on independent variables, Glejser test has been used for detecting heteroscedasticity problem and which is found. Dependent and all independent variables have been divided by unstandardized predicted variables due to heteroscedasticity problem.

Coefficient value of independent variable interaction of Dec i.e. dummy variable, average profit margin and natural logarithm of change in sales ratio with dependent variable natural logarithm of change in cost ratio is negative. Coefficient value of another independent variable interaction of Dec i.e. dummy variable, average assets turnover rate and natural logarithm of change in sales ratio and dependent variable natural logarithm of change in cost ratio is positive. Hence, it is as per prior hypothesized i.e. this study has supported (if other thing is remaining the same) cost stickiness of firms pursuing a differentiation strategy is higher than that of firms following a low cost strategy.

This study has analyzed the generic strategies in different dimensions like sustainability in the perspective of financial performance, perception in capital markets, bankruptcy risk and effect on behavior of cost on the basis of secondary data which was published in annual audit report. Hence, additional quarry of this study is the perception of senior employees of Nepalese enterprises in the perspective of impact of generic strategies on quality of product/service has been focused on the relationship between generic strategies and product/service quality in next chapter.

CHAPTER VI

Relationship between Competitive Strategies and Product Quality

6.1 Introduction

Quality is a perceptual, conditional and somewhat subjective attribute and may be understood differently by different people. Consumers may focus on the specification quality of a product/service and it compares to competitors in the marketplace. Producers might measure the conformance quality or degree to which the product/service was produced correctly. In another word, product quality is the product's ability to fulfill the expectations and needs set by the end user. The product must work reliably and perform all of its functions. Product quality should have precise limits of acceptability so that the production team can manufacture the product strictly according to specification and drawings.

Much has been written about quality as a source of competitive advantage in the last decade; however, little attention has been given to examine how quality performance can be effectively employed as a base for realising firms' competitive strategy (Gale & Klavans, 1985). More importantly, literature shows conflicting arguments concerning the strategic orientation that drives quality performance, particularly between differentiation and cost leadership. One group of scholars suggests that quality fits differentiation strategy, whilst the others hold that quality is positively related to cost reduction which would fit the objective of cost leadership strategy (Morgan & Piercy, 1996). Further to this, linking quality with both differentiation and cost leadership strategy leads to the issue of compatibility between both strategic orientations (Hill, 1988).

In order to resolve this inconsistency, this study has been designed to serve two purposes. First, it has sought to examine the effect of the adoption of different strategic competitive strategies – differentiation and cost leadership – in predicting quality performance. Second, it has considered the co-alignment between differentiation and cost leadership – which has been a contentious issue – in predicting quality performance. By adopting a generic competitive strategy, firms will translate the underlying intent of the strategy

into various operational performance measures. These include quality, innovation, service, brand, flexibility, and price. This study has focused on quality as a strategic performance as a reflection of a competitive strategy of the firms. Over the past two decades, quality has been heralded as the source of competitive advantage (Forker, Vickery, & Droge, 1996; Hans, & Will, 1993; Raghunathan, Rao, & Solis, 1997). Quality has gone through an evolution process, from an operational level to a strategic level, and some scholars have given strong support for the view that quality must be adopted as a strategic goal in organizations (Adam, 1992; Garvin, 1988; Schonberger, 1992).

Contemporary views of marketing strategy recognize two alternative approaches to achieving supernormal rates of return (Hall 1980; Porter 1980). One approach, product differentiation, entails designing or marketing products so that they are perceived as unique by customers. Although many bases for differentiations exists, superior quality is the approach most often used to characterize this strategy. Differentiation by quality separates a business from competitive rivalry by creating customer loyalty, lowering customer sensitivity to price, and protecting the business from other competitive forces that reduce price-cost margins (Porter, 1980).

An alternative strategy, overall cost leadership, involves generation of higher margins relative to competitors by achieving lower relative direct manufacturing and distribution costs. Higher margins are in turn reinvested in new manufacturing equipment and facilities to maintain cost leadership. Whereas high quality produces superior price- cost margins by operating on prices, cost leadership accomplishes the same by making costs the strategic target.

Literature pertaining to these two generic strategies emphasizes that they are basically incompatible. Indeed, conventional wisdom suggests that achieving higher relative quality or low relative costs are alternative goals that require different courses of action, resources and skills (Hall, 1980; Porter, 1980). The rationale is that higher quality usually requires the use of more expensive components, less standardized production processes, and the adoption of the other manufacturing and management techniques incompatible with achieving low costs. Furthermore, achieving a high quality position may require higher expenditures in other areas beyond the direct cost of manufacturing

and distribution. Higher advertising and promotion expenditures may be necessary to convey a quality position to customers increased sales force spending may be needed to support the higher level of customer services that may accompany higher quality products; and a heightened emphasis on product innovation may be necessary to sustain a quality position.

Product quality exerts a significance positive influence on market share (Buzzel & Wiersema, 1981). In particular, several studies have examined the fit between business strategies in terms of differentiation, cost leadership, focus and operations strategies in terms of quality, delivery, flexibility, and cost (Powers & Hahn, 2004; Smith & Reece, 1999) as well as the impact of strategy on business performance (O'Farrell, Hitchens, & Moffat 1993; Roth & Jackson, 1995). Whilst these studies have provided key insights on the strategy-performance link in service organisations, it is equally important to understand how operations strategy is to be deployed into operations activities (Anderson, Cleveland, & Schroeder 1989). For example, Ward, Miller, and Vollmann, T.E. (1988, 1988) have summarized the empirical support and wide agreement in the literature for a circumscribed set of strategic choices in manufacturing which include capacity, facilities, technology, vertical integration, production planning and control, quality, organisation, work force management, and product/process mix.

In a more systematic way, Roth, and van der Velde (1991) has suggested that competitive priorities (which are similar to operations strategies) need to be deployed into a service delivery system which includes structural elements (e.g. technology, capacity, and facility) and infrastructural elements (e.g. people, information systems, and performance measurement) of the operations.

A competitive advantage provides customers with superior value compared to competitive offerings. Evaluation of the relationship among quality, productivity and positioning requires an understanding and examination of the elements of quality relative to the operations strategy (Zineldin, 1995, 1996, 2000).

Efficiency can be defined as the lack of waste of resources and time and optimisation of efficiency elements in line with high quality (Armistead, 1990). One necessary condition for the realization of quality and the creation of value added is quality measurement and control. This is an important function to ensure the fullfilment of

given customer requirements. The purpose of the marketing quality control is to determine whether the quality system is performing at optimum levels from an operational point of view. Ishikawa (1985) has pointed out that quality control is carried out for the purpose of realizing the quality that conforms to customer requirements.

This chapter aims at providing empirical evidence on the relationship between product quality and generic strategies of Nepalese listed enterprises. The rest of chapter has been organized as follows: Section 6.2 outlines previous research in to generic strategies and product quality. Section 6.3 described data analyzing methodology. The results are presented in section 6.4. Section 6.5 provides a discussion overall the results.

6.2 Literature Review

The review of literature on generic strategies, competitive advantages, product quality and organizational performance has been organized into five groups:

- I. Review of major studies during 1980s
- II. Review of major studies during 1990s
- III. Review of major studies during 2000s
- IV. Review of major studies during 2010s
- V. Review of major studies in Nepalese context.

I. Review of major studies during 1980s

Table 6.1 highlights the key findings of the studies carried out during 1980s.

Table 6.1

Major studies during 1980s

| Study | Major findings |
|-------------------------------------|--|
| Philips, Chang, and Buzzell, (1983) | Relative product quality actual has a beneficial influence on relative direct cost position is supported across all six types of business under investigation. |
| Hambrick (1983) | Overall findings are significantly different with ROI. |
| Kim and Lim (1988) | High performing cost leaders and high performing differentiations are found in different environment. |
| Buller and stull (1990) | The cooperative education program using a differentiation strategy has generally been successfully in developing their distinctiveness |

A study on product quality, cost position and business performance, examined correlation of relative product quality with other relative marketing six mixes variables which were consumer durable business, customer non-durable business, capital goods business, raw and semi-finished material businesses, component business and supplied businesses. According to its findings, in consumer nondurables, materials and component businesses, achieving a high relative quality position did not generally entail higher relative marketing expenditure or a higher relative level of innovative effort (Philips, Chang, & Buzzell, 1983).

The study on high profit strategies in mature capital good industries has been conducted by Hambrick (1983). Multiple regressions were conducted in which the strategic attributes were regressed against return on investment (ROI). ROI (four-year average) was used as the performance measure of this study, calculated as pretax profits divided by net investment. The findings suggest that quality (positive), marketing expenses (negative), relative costs and prices (positive), and market share (positive) are related to ROI.

A study on environment, generic strategies and performance in a rapidly developing country in a taxonomic approach has been made by Kim and Lim (1988). The location of the study is Korea where effective strategic management at the firm level has become essential. The data for this study was collected from 54 firms. Data were collected both environmental and strategy variables through interviews in Korean with top managers, mostly senior vice presidents. Return on assets, return on equity and sales growth rate was measured in terms of three year were used as performance measures in this study. The findings recommend that product differentiators perform well in the market, weak bargaining power and competitive. Cost leaders perform in the market of strong bargaining power and no firm has done well in the market of technical dynamics.

Similarly, a study on strategy and performance in cooperative education programme has focused on the nature of strategic planning practices and their performance effects. The study has been with reference to 285 cooperative educations programs in U.S. institution of higher education. It has been suggested that differentiation strategies has been associated with high placement rates and outside funding. It is reasonable to argue

that programs attempting to differentiate on such dimensions as program quality, service to students, and student placement will enhance their ability to place students and attract outside sources of funding. The analysis has also suggested that programs using a differentiation strategy have generally been successful in developing their distinctiveness. Yet, as expected, programs using their strategy serve fewer students per dollar budget than programs using a low cost strategy (Buller & Stull, 1990).

II. Review of major studies during 1990s

The key findings of study carried out during 1990s are summarized in table 6.2.

Table 6.2
Major studies during 1990s.

| Study | Major findings |
|--|--|
| Reitsperger, Daniel, Tallman and Chismar, (1993) | Truly generic strategies, applicable to any industry, are probably inappropriate, as is an emphasis on narrowly focused strategies. |
| Yavas (1995) | Quality attitudes in the two groups appear to be more similar and dissimilar. |
| Kotha, Dunbar, and Bird, (1995) | Managers from both Japan and the U.S. place great, but different emphasis on quality, quality controls, operating efficiency, cost reduction and customer service capabilities. |
| Wagner and Digman (1997) | Time based strategy has a positive influence on financial performance |
| Chapman, Murray, and Mellor, (1997) | There are many more significant correlations for the labor productivity ratio for the other two earning on shareholder funds and return on total assets. |
| Lindahl and Beyers (1999) | Cost-based sources of competitive advantage are few establishments based strategies pursue differentiation-in a variety of ways to achieve superior performance. |
| Reginald and Archie (1999) | Small manufacturing firms can achieve a sustainable competitive advantage vis-à-vis quality differentiation across three stages of industry evolution in production, growth and maturity. |
| Curkovic, Vickery, and Droge (2000) | The core dimensions of quality are: product quality, which is primarily focused on design superiority and performance of the physical product and service quality which comprises both pre-and post-sale service |
| Kumar, Subramanian, and Strandholm (2000) | Market orientation had a more positive impact on the performance of organizations pursuing a differentiation strategy than on those pursuing a cost leadership strategy |

For a study on ‘Product quality and cost leadership in compatible strategies’, sample was drawn from Japanese electronics firms, an industry in which the Japanese have achieved an especially strong competitive position. The companies were selected from listings of the first and second sections of the Tokyo, Osaka, and Nagoya Stock

Exchanges using the Japan Company Handbook. Twenty questionnaires were mailed to each company manufacturing managers. The findings reveal that group higher means strategic scores for either cost or quality will show relatively higher levels of performance (Reitsperger, Daniel, Tallman, & Chismar, 1993).

Yavas (1995) has examined the perceptions of different dimensions of product quality that manager in U.S. and Asian manufacturing firms may have and investigates some of the implication of these differences. The questionnaire, administered to a sample of U.S. electronics manufacturing firms based in the United States and to the Asian companies within the same industry during April-August 1991, attracted enough data, which were analyzed using principal component factor analysis.

The findings suggest that U.S. and Asian managers differ significantly with respect to such issues as supplying below standard level of quality to minimize loss, quality control department being responsible for quality, use of concurrent engineering (engineering, manufacturing and quality control) existence standards in the industry, quality set by government and, quality-cost trade-off. On the other hand, no significant differences have been found between the two groups with respect to the following: the focus should be on yields rather than zero defects, automation helps improve quality, always buy the supplies from the lowest bidder and quality is essential to sales.

A study on strategic action generation in a comparison of emphasis placed on generic competitive methods by U.S. and Japanese managers has been conducted by Kotha, Dunbar, and Bird, (1995). The purpose of this study is to explore and analyze the different emphasis that firms place on alternative methods of competitive strategy. The U.S. sample was drawn from firms listed in the compact disclosure database. All members of the standard industrial classification (SIC) codes 34-39, which included firms in metal fabrication, nonelectrical machinery, electronic machinery, transportation equipment, instrumentation and miscellaneous manufacturing, were included in the sample. Regarding sample of Japanese firms listed on the Tokyo Stock Exchange, to facilitate a meaningful comparison with the American sample, the firms selected belonged to broadly the same SIC codes 34-39. The findings reveal that U.S. managers concentrate their attention mainly on quality and operating efficiency issues as well as on building up their firm's reputation. In contrast, Japanese managers emphasize a much wider range of competitive methods than do their U.S. counterparts. The Japanese managers also place more emphasis on new product development, product line breadth and cost position. The ability to have low cost production is the Japanese objective number one. U.S. managers emphasize a narrow range of competitive methods any one of which may be perceived as sufficient to differentiate.

In contrast, the Japanese concentrate on building stable and defensible positions and, hence, emphasize a wide range of competitive methods.

Likewise, a study on the relationship between generic and time based strategies and performance has been made by Wagner and Digman (1997). Time base strategy is defined as organizational timing and speed in the execution of product development, product delivery and service responsiveness. The study sample, defined as profit seeking single firms and business units of diversified firms, has included electronic information services, telecommunications and navigation equipment, sporting and athletic goods, aircraft equipment and the construction industry. The generic strategy measures relates to one cost and three differentiation strategies i.e. innovation, marketing and quality. After factor analysis quality items have not been covered into one factor. Instead cost, marketing process innovation and product innovation strategies have been emerged from the factor analysis. Two variables return on assets and sales growth have been used to measure financial performance. Test result has not supported the single and multiple generic strategies. The names of the clusters demonstrate significant differences in their time based strategy scores but the time-based has a positive influence on financial performance. Strategic quality management and financial performance indicators through a sample of 75 firms responding to the survey have been well distributed across the manufacturing and service continuum.

The findings reveal that the greater sensitivity of sales figures to changes in business performance than either earnings on shareholders' funds or return on total assets. Of course, the more cynical observer may argue that those firms claiming business improvements through various quality management interventions have often engaged in major downsizing activities which would rapidly improve the labor productivity ratio (Chapman, Murray, & Mellor, 1997).

A study on the creation of competitive advantage by producer service establishments has been conducted by Lindahl and Beyers (1999). It focuses on how competitive advantage is constructed by producer service businesses, how it varies among establishments with different characteristics, and how it affects establishment performance. Sources of competitive advantage stem from characteristics such as quality, price, creativity and innovation, flexibility, timeliness of delivery and scope of services offered. Finding report is based on a set of producer service establishments in 1993. The finding suggests that pure differentiation is based strategies achieve superior performance.

Similarly, a study on the performance of aligning the competitive strategy of quality differentiation with each of the four fundamental industry life cycle stages i.e. introduction, growth, maturity and decline, firm performance has been used as dependent variable, and competitive strategy dimension (e.g. quality differentiation) and industry life cycle have been used as independent variables for regression analysis. The findings reveal that introductory stage of industry emphasizes on the competitive strategy of quality differentiation and it produces higher level of performance. Quality differentiation in matured industries does not achieve high level of performance. Declining stage of industry life cycle that strongly emphasizes on quality differentiation does not achieve high level of performance (Reginald & Archie, 1999).

Curkovic, Vickery, and Droge (2000) have conducted the study on an empirical analysis of the competitive dimensions of quality performance in the automotive supply industry. Sample was selected from the top 150 (i.e. General Motors, Ford and Chrysler) in North America. The final sample for the study consisted of 57 of 150 firms contracted. A factor analysis of these items was provided empirical support for quality as two-dimensional. Specifically, the two core dimensions of quality identified were: (1) Product quality, consisting of design quality (including number of features, product performance etc.) conformance to specifications product durability and product reliability. (2) Service quality consisting of pre-sale customer service, product support (post-sale customer service) and responsiveness to customers.

For a study on market orientation and performance: a central question posed has been: does organizational strategy matter? The study has been conducted by Kumar, Subramanian, and Strandholm, (2000). They have examined the market orientation-competitive strategy-performance relationships of acute care hospitals. Using the American Hospital Association Guide to the Health Care Field, 600 acute care hospitals were selected to be participants in this study. There was a usable response of 159 fully completed questionnaires out of 171 surveys (28.5 percent) received. Analysis of variance was used to examine the differences in overall market orientation and the relative emphasis on different components of the two strategy groups. Multiple regressions were used to examine the impact of market orientation and its components on the performance of the two strategy groups. The findings show that hospitals pursuing a differentiation strategy have stronger market orientation than those pursuing a cost leadership strategy. Market orientation has a more positive impact on the performance of organizations pursuing a differentiation strategy than on those pursuing a cost leadership strategy.

III. Review of major studies during 2000s

The studies carried out during 2000s reveal the following findings which have been presented in table 6.3.

Table 6.3
Major studies during 2000s

| Study | Major findings |
|--|--|
| Douglas and Judger, (2001) | Positive relationship between the degree of TQM implementation and organizational performance |
| Rust, Moorman, and Dickson, (2002) | Firms can achieve greater financial revenues from quality improvements |
| Lau (2002) | Product quality, lower production cost and better supplier relationship most important factors for improving their competitive position. |
| Hansson and Eriksson (2002) | Financial performance, measured by the stated indicators become more advantageous for companies that have successfully implemented TQM than their branch indices and stated competitor |
| Luo and Zhao (2004) | Host market penetration in China demonstrates that the strength of corporate link increases along cost leadership, strategic focus, and product differentiation strategies |
| Sum, Kow, and Chen, (2004) | Efficient innovators reported the highest overall financial performance, growth in annual sales and growth in market share |
| Zineldin (2005) | CRM high quality attributes of the Product/Service and differentiation are thus most important factors in creating a unique position for bank in the minds of the target customers. |
| Sita, Ebrahimpour, and Birkholz (2006) | Companies believe SCQM will have a positive impact on the quality of the final product; they do not fully implement this concept. |
| Al-Hawari and Ward (2006) | Customer satisfaction is confirmed as a mediator in the relationship between automated service quality and financial performance. |
| Halim, Gokhan, and Ayse (2006) | Effect of the quality and cost flexibility on financial performance is higher for large companies compared with SMEs. |
| Prajogo (2007) | Product quality was predicted by differentiation strategy. |
| Golob and Podnar (2007) | Some differences in strategies between old and new European Union (EU) member companies |
| Yoo and Park (2007) | Enhance service quality leads to customer satisfaction. |
| Daniel and David (2008) | Implementation of a cost leadership strategy by developed country multinational companies (MNCs) is rarely effecting in emerging market. |
| Prjogo, McDermott, and Goh, (2008) | Organizations striving to achieve differentiation through innovation |
| Lakhal (2009) | Quality can have a direct, positive influence on organizational performance |
| Jung, Wang, and Wu, (2009) | Competitive strategy does not directly influence the continuous improvement of international project management (CIIPM) performance. |
| Toften and Hammervoll (2010) | All the investigated case firms follow a focused differentiation strategy to achieve a sustainable competitive advantage. |

A study on total quality management (TQM) implementation and competitive advantage in the perspective of the role of structural control and exploration has been made by Douglas and Judger (2001). The purpose of this study is to examine the degree

to which a comprehensive set of TQM practices has been implemented in a set of organizations, and too look at the effect of organizational structure on implementation effectiveness and the corresponding competitive advantages gained through TQM.

The setting for this examination was the general medical hospital industry. Both primary and secondary data were gathered for the analysis. From a list of 55 standard metropolitan statistical areas (SMSAs) in the United States that contained at least 15 general hospitals, this study randomly selected 19 metropolitan areas. Questionnaires were administrated to the chief executive officer and the director of quality at each of the 512 hospitals in these 19 SMSAs. Finally, this study combined the survey data with secondary information available for the responding hospitals.

The results indicate that the degree of TQM practices implemented is positively and significantly related to both the perceived financial performance of a hospital and its industry-expert rated performance. Data show some support for the moderating influence of organizational structure on TQM implementation effectiveness. Two measures of organizational structure, labeled "control" and "exploration," have been found to offer independent and interdependent influences on the financial performance of firms implementing TQM programs.

The study on getting return on quality in the perspectives of revenue expansion, cost reduction or both has been conducted by Rust, Moorman, and Dickson, (2002). It examines financial benefits from quality which may be derived from revenue expansion, cost reduction or both simultaneously. Revenue emphasizes improving quality by addressing the issues that have the greatest impact on overall customer satisfaction. Cost emphasis tends to increase the productivity of quality efforts by reducing the input (labor and material) required to produce a unit of output. The dual emphasis tries to implement tenets of both the revenue building and cost reduction approaches simultaneously. Financial performance has been measured using both primary and secondary data.

The result suggests that firms adopting a revenue emphasis to manage quality, profitability may reap the greatest rewards the primary. The secondary results indicate that the revenue emphasis show a significant, positive impact on financial performance and customer relationship performance. The cost emphasis has no primary and

secondary measure of performance. The dual emphasis has no effect on financial performance and customer relationship performance.

Competitive factors and their relative importance in the US electronic and computer industries has been examined by Lau (2002). This study focuses on the relative importance of nine competitive factors and their correlations with three performance measures. Manufacturing executives have been asked to rate the importance of each competitive factor with a seven-point scale of 1 (least important) to 7 (extremely important). A study of 382 US computers and electronics firms' has showed higher product quality and lower production cost are the most important competitive factors.

The findings denote that achieving high quality or low cost alone is not enough to improve or sustain a firm's competitive position and there is a need to explore the emerging role of innovation and advanced manufacturing technology for achieving sustainable competitive advantage.

The impact of total quality management on quality performance has been studied by Hansson and Eriksson (2002). In this study, Swedish quality award recipients have been compared to branch indices for the identification of competitors. The comparison concerns the development of different financial performance indicators. The study indicates that the award recipients as a group outperform in branch index. Its findings reveal that financial performance measured by the stated indicators becomes more advantageous for companies that have successfully implemented total quality management than their branch indices and stated competitor.

Luo and Zhao (2004) have examined how the corporate link between a foreign subsidiary and its corporate members (parent and peer subsidiaries) is influenced by the subsidiary's competitive strategy in a specific host country. This study used archival and survey data. Archival information was used to measure some control variables while the multisource survey information was used to measure major variables. This study used foreign subsidiaries located in Shanghai as the sample population. From the database of the Shanghai Foreign Investment Commission and the Foreign Investment Association, 602 sample subsidiaries were chosen. Subsidiary CEOs are primary informants who responded most survey questions, while senior financial managers filled in profitability information (in a separate part attached to the main questionnaire).

One hundred questionnaires were returned out of six hundred to, but one hundred twenty one questionnaires were used only. Discriminant analysis and regression analysis were used for analyzing the data. According to its findings, the corporate link is stronger for those emphasizing differentiation than for those emphasizing on strategic niche which is, in turn, stronger for those emphasizing cost leadership.

A study on the taxonomy of operations strategies of high performing small and medium enterprises in Singapore has been conducted by Sum, Kow, and Chen, (2004). It examines high performing SMEs and develops a taxonomy based on their operations priorities of cost, quality, delivery and flexibility. Results show that the three strategic clusters that compete on different combinations of operations priorities. Efficient innovators excel in innovation-related priorities as well as in cost. Differentiators compete on quality, flexibility and delivery but at the expense of high cost. All-rounders, while offering good operational balance, do not possess any distinctive operational advantage. All-rounders seem to rely on marketing rather than operations for competitive advantage. Efficient innovators report the best overall financial performance.

Similarly, a study on quality and customer relationship management as competitive strategy in the Swedish banking industry has been conducted by Zineldin (2005). It examines the product and service quality and customer relationship factors that influence the customer selection and image of the principal banks. Population of this study was Swedish commercial banks. Five valid criteria were selected for primary selection, which were represented some dimensions by which customers evaluate and perceive the attributes of their banks, i.e. service quality, credit availability, price competition, delivery system, and promotion, reputation as well as differentiation. Its findings suggest that quality and differentiation provide a bank with opportunities to offer the customer something, which is distinctive.

Sita, Ebrahimpour, and Birkholz (2006) have critically looked at supply chain quality management (SCQM) in manufacturing companies of USA. A sample of 1000 companies was randomly selected from the society for manufacturing engineer's mailing list. It analyzed on knowledge these companies had about their different supply chain partners, the attributes that characterized customer-supplier relationships and the

factors that determined the development of quality specifications in a supply chain, and the effect of supply chain quality management activities of companies on product quality. It reveals that among the three attributes i.e. quality, price and trust tested, quality is the most important factor for companies in their relationships with suppliers and customers. Results also indicate that companies realize the positive effects of trust in their relationships with customers and suppliers. Companies extend their quality management initiative to their major customers but not to their major suppliers.

The relationship between customer perception of service quality and bank financial performance in the new context of the automated banking environment in Australia has been highlighted by Al-Hawari and Ward (2006). A quantitative survey has been conducted in order to empirically measure and test the relationship between variables. This study sample includes Australia's big four banks, a Queensland state bank and a number of credit unions and building societies.

The findings reveal the positive relationship between the quality of automated service offered by a particular bank and the level of customer satisfaction with that bank. No direct relationship between automated service quality dimensions and financial performance has been found. Customer satisfaction is also a mediating mechanism, through which automated service quality dimensions operate with respect to their impact on bank financial performance.

The effect of manufacturing strategies on financial performance has been highlighted by Halim, Gokhan, and Ayse (2006). Its findings disclose that the effect of the quality and cost flexibility on financial performance is higher for large companies compared with small and medium enterprises (SMEs). It asserts that quality, cost and flexibility and rate of delivery factors increase the financial performance. However, quality and "cost & flexibility" yield more statistically significant results. Impact of quality, cost and flexibility vary with the size of business i.e. when the size of business increases, the influences of these variables on financial performance increase.

Prajogo (2007) has studied on the relationship between competitive strategies and product quality. Empirical data have been collected from 102 managers through survey questions. Participants are selected randomly from Australian manufacturing companies. Correlation analysis and regression analysis have been used for analyzing

the data. Quality performance is treated as a dependent variable. Differentiation strategy and cost leadership strategy are treated as independent variables. Organizational size (in terms of number of employees) has also used as a controlled variables. The findings indicated that product quality is predicted by differentiation strategy but not cost leadership strategy. However, the effect of differentiation on quality is moderated by cost leadership strategy whereby the higher the cost leadership, the stronger the effect.

Competitive advantage in the marketing of products within the enlarged European Union has been studied by Golob and Podnar (2007). This analysis is based on 18 European Union member States (14 founding States and four new States that joined in 2004). To investigate the range of strategies as used by EU companies in both old and new member states, cluster, discriminant analysis and multiple comparison procedures have been used. Mean scores for each element and the findings described suggest that product price as the main source of competitive advantage is typically associated with new member countries, Slovenia and the Czech Republic in particular, while old member countries tend to emphasize quality and distribution over price.

Yoo and Park (2007) have examined important variables in the design of service-employee, perceived service quality, customer and financial performance. This study provides empirical evidence in affirming the rich inter-relationship among four variables. Drawing on a sample of 129 hotels, the results of this study show that employee training has an influence on perceived service quality. A shared understanding, defined as the extent to which employees understand their visions, same standards and service performance result among employees, plays a critical role in enhancing perceived service quality. In addition, customer satisfaction mediates between perceived service quality and financial performance.

A study on difficulties in using a cost leadership strategy in emerging markets has been conducted by Daniel and David (2008). It does not use empirical data or statistical analysis to supports its claims. The arrangements made have been supported through theoretical discussion and non-systematic observations of multinational companies (MNC) actions and consequent outcomes. Its findings reveal that implementation of a cost-leadership strategy by develop-end country MNCs is rarely effective in emerging

markets, and that MNCs may benefit from using different strategies in different markets.

Impact of value chain activities on quality and innovation has been studied by Prjogo, McDermott and Goh (2008). It asserts that the extent to which four elements of the value chain - marketing, research and development, procurement, and operations are associated with product quality and product innovation. Sample was taken from a survey of 194 managers of Australian firms, and multivariate analysis using structural equation modeling was used. Its findings reveal that customer focus and process management have a significant relationship with product quality only, while research and development (R&D) management showed a significant relationship with product innovation only. Only supplier relationship is significantly linked to both product quality and product innovation. Organizations striving to achieve differentiation through innovation should focus their energies and resources on building competencies in R&D and procurement value chain activities.

A study on impact of quality on competitive advantage and organizational performance has been made by Lakhali (2009). This study highlights empirical justification for a framework that describes the relationship between quality, competitive advantage, and organizational performance. Data for the study were collected from 74 Tunisian plastic industries. Data collection instrument was pre-tested in 10 companies. The pre-tests included structured interviews with the general manager, the quality manager, the process engineer, the human resources manager, as well as with several supervisors and worker. Personal interviews were collected for each of these firms. Relationship proposed in the framework was tested using structural equation modeling.

The findings denote that quality may have a direct impact on competitive advantage than that on organizational performance. Organizational performance is usually influenced by many factors and it is hard to see whether anyone factor, such as quality, will strongly determine the overall performance of an organization. The results also show that organizational performance is influenced more by competitive advantage than by quality. This study indicates that quality produces competitive advantage to the organization in the first place, and competitive advantage, in turn, leads to improved organizational performance.

The study, which was conducted by Jung, Wang, and Wu (2009), critically looks at the relationship between competitive strategy, total quality management (TQM) and continuous improvement of international project management (CIIPM). A theoretical model and five hypotheses have been developed in this study. A cross-sectional data collected from 268 international project managers based in four countries is used to test the theoretical model. Hypotheses assume that differentiation and cost leadership strategy, which are considered as two most prominent elements of competitive strategy, affect international project management performance through the mediation of TQM elements.

Toften and Hammervoll (2010) have examined niche marketing and strategic capabilities of specialized firms. This study identifies the strategic capabilities of niche firms. The strategic capabilities as identified in this study can be described and placed at different stages within the firms' value chains. Each stage has its own set of important strategic capabilities. These stages are: inbound logistics, production or refinement, and marketing & sales. Semi-structured in-depth personal interviews with key informants have been used as the data-collection method in order to allow for discussions and follow-up questions. Qualitative analysis has been theme-based and manually conducted. The unit of analysis is the firm, as perceived by the key informants. Interpretations, interview transcripts and summaries of preliminary findings have been independently reviewed by two researchers, thus fulfilling the generally accepted criteria regarding reliability and validity of qualitative data analysis.

The findings reveal that all the investigated case firms follow a focused differentiation strategy to achieve a sustainable competitive advantage. The focus aspect of the niche firms' strategy is mirrored in the reported narrow geographic market focus, which could be limited to only one country, a limited number of customers—one sole customer in one case—or a limited number of customer types. With regard to strategic capabilities, the results have been rather similar across cases, particularly for each pair of case firms within similar sectors (wine, organic salmon, and stockfish). From the case firms' point of view, it is clear that having access to high-quality raw material is critical to their strategy of delivering high-quality products.

IV. Review of major studies during 2010s

The major findings of study carried out during 2010s are summarized in table 6.4.

Table 6.4
Major studies during 2010s

| Study | Major findings |
|---|--|
| Albacete-Saez, Fuentes-Fuentes, and Bojica (2011) | Cost orientation, shows a positive effect on financial results. |
| Baird, Hu, and Reeve, (2011) | Four TQM practices were found to be interrelated |
| Phongpetra and Johri (2011) | There are three significant business strategies of automobile manufacturers in Thailand which have a positive effect on the organization's financial and marketing performance: cost focus (the first priority), cost leadership (the second priority) |
| Sun and Pan (2011) | Positive associations between differentiation strategy and high-performance human resource (HPHR) practices, and between HPHR practices and firm performance |

The study on three strategic priorities which are cost emphasis, differentiation in marketing and differentiation in innovation in influence of quality management (QM) on financial result has been conducted by Albacete-Saez and Albacete-Saez, Fuentes-Fuentes, and Bojica (2011). The study population consists of firms that have implemented quality management in Spain. Data from 256 firms that have implemented quality management have been collected. The findings recommend that differentiation in both manufacturing and innovation has a positive and significant effect on quality management in the group of quality managers. In the group of general managers and quality managers emphasize cost are the only strategic priority influencing financial performance.

A study on the relationships between total quality management practices and operational performance has been highlighted by Baird, Hu, and Reeve, (2011) through a survey of 364 business units encompassing both the manufacturing and service industries in Australia. The findings reveal that cultural dimension teamwork/respect for people is the most important factor in enhancing the use of total quality management (TQM) practices, while more outcomes - oriented and innovative business units have been also found to use TQM practices to a greater extent. While all four TQM practices have been found to be interrelated, only three of the factors (supplier

quality management, process management, and quality data and reporting) have been found to help to achieve the operational performance goals.

A study on business strategies of automobile manufacturers in Thailand has been made by Phongpetra and Johri (2011). This study examines automobile manufacturers in Thailand and the effects that their business strategies have on their organizational performance. Primary data were collected through 254 questionnaire survey from 12 top executives of automobile manufactures in Thailand. Factor analysis and the structural modeling method were applied in order to refine business strategies, functional strategies, financial, and marketing organizational scales. The findings disclose that business strategies ranking from the first to fifth priorities with mentioned values of factor loading are classified as cost focus (the first priority), cost leadership (the second priority), integrated cost and differentiation (the third priority), differentiation focus (the fourth priority), and differentiation (the fifth priority). Furthermore, the functional strategies categorizing from the first to fourth priorities with a value of factor loading include manufacturing (the first priority), human resources (the second priority), marketing (the third priority), and finance (the fourth priority) at the significant level 0.01.

Sun and Pan (2011) have analyzed differentiation strategy, high-performance human resource practices, and firm performance as well as moderation by employee commitment. The study examines a moderated mediation model demonstrating how differentiation strategy affected firm performance indirectly through high-performance human resource (HPRH) practices. Data were collected from 81 service firms in an eastern province of China. A survey team distributed survey packages to each of the participating firms. Each survey package contained separate questionnaires administered to top (general or associate general) managers, human resource managers, and frontline employees. After deleting uncompleted questionnaires, data from 81 top managers, 81 HR managers, and 2174 employees constituted the sample for this study. Path analytic tests have supported the findings that employee commitment (EC) moderates the fully mediated relationship between differentiation strategy and firm performance through HPRH practices. Specifically, a stronger EC enhanced positive associations between differentiation strategy and HPRH practices, and between HPRH practices and firm performance.

V. Review of major studies in Nepalese context.

Some major findings from the study undertaken in the Nepalese context are provided below.

Table 6.5
Major studies undertaken in Nepalese context

| Study | Major findings |
|------------------|---|
| Joshi (2007) | The comparative study between the public and private colleges has found out that the current status of the public colleges in regards of the students dimensions of quality education are not satisfactory while they are satisfactory in regards of the private colleges |
| Bhattarai (2008) | Well trained and experienced resource persons is the main factor to determine quality assurance in higher education |
| Giri (2013) | If the employees of an organization become emotionally intelligence, it improves service quality delivered by that organization. |

A study on total quality in higher education in Nepal from a student perspective focuses on comparative study between public and private colleges. The study has been conducted by Joshi (2007). The main quality education dimensions covered by this study are courtesy, course delivery, consumer's feedback and improvement, campus facilities and commitment of top management. The study has followed descriptive research design. The sampling techniques are based on purposive (judgmental) sampling.

The study was done in fourteen selected management institutions, eight consistent colleges and six private, from the Kathmandu valley offering graduate and post-graduate levels. The study was based on both primary and the secondary sources of data. The primary sources of data were the main sources of analysis. It was collected form the distribution and collection of questionnaire. Secondary data was collected from the published reports. It was just used as information for the study but analysis was not done it. For the analysis of data inferential and descriptive statistical tool were used during mean scores, standard deviation, percentage of frequencies and ANOVA. Likert-scale was used for testing reliability and validity.

The findings denote that the current status of the colleges in regard to the existence of the student's dimensions of quality education is not so satisfactory. Out of five major

quality dimensions selected for the study, only three have been found to be above the satisfactory level.

Regarding campus facilities and improvements, the comparative study between the public and private colleges has found out that the current status of the public colleges in regard to the students dimensions of quality education are not satisfactory, while they are satisfactory with respect to the private colleges. There is significant difference between private and public colleges.

Similarly, a study on quality assurance in Nepalese higher education from the perspective of a comparative study of technical and non-technical education in the context of Tribhuvan University has been made by Bhattarai (2008). The study comprise of both qualitative and quantitative kinds of analysis. Quantitative data were analyzed by five point Likert Scale. All administrators, teaching faculties of TU were population of the study. The sample comprised 80 faculty members and 100 administrators. The sample respondents were categorized as professors, readers, lectures, deans, principles, department heads and other staffs related with different institutes and faculties of TU. Cluster analysis, descriptive statistics, chi-square test and t-test were used for this study.

The findings assert that well trained and experienced resource persons are the main factor to determine quality assurance in higher education. Well trained and experienced resource person, assignment, project-work and other activities, admission of the student on merit basis; discipline of the students, and change a behavior of the students are the first five prime factors determining quality assurance in higher education.

Additionally, a study on employee's emotional influence and service quality evidence from Nepalese banking sector has been conducted by Giri (2013). The purpose of this study is to establish an understanding and impact of employee's emotional intelligence on service quality with reference to banks. This study examines the relationship between employee's emotional intelligence which may be associated to service quality through those employees who are working for banks and deliver customer services. This study is based upon the cross sectional design and has followed the quantitative

study utilizing survey methodology in an effort to gather further understanding of the impact of employee's emotional Intelligence on bank service quality.

Banks like Standard Chartered and Nepal Bank Limited are population for this study. Primary data used for this study have been collected five branches each of Standard Chartered Bank and Nepal Bank Limited. The study is descriptive and analytical in nature and conducted through survey design. The study is mainly based on cross-sectional design. Data have been collected through questionnaire and respondents in this study have been employees of banks and customers. Out of them, 130 customers and 130 employees have been taken for this study. Factor analysis, correlation analysis, and multiple regression analysis have been used for analyzing the data.

The findings show that if the employees of an organization become emotionally intelligent, it improves service quality delivered by that organization. However, it can be argued that a relatively poor service quality at Nepal Bank Limited have resulted from employees due to the lower level of employee intelligence. The result also suggests that if emotional intelligence training is actively initiated and supported by top management, employee may produce quality outcomes.

To conclude from the above review of studies, product quality has been predicted by differentiation strategy, but not cost leadership strategy. However, the effect of differentiation on quality is moderated by cost leadership whereby the higher the cost leadership, the stronger the effect. The role of differentiation and cost leadership strategy in predicting quality performance in Nepalese context has not been yet studied. Previous studies do not segregate different dimensions of quality and examine the relationship among these dimensions of different strategies.

Similarly previous studies have not examined the contingency factors which drive the choice of the strategic intent and performance and not addressing this issue can be done by comparing the relationships between strategy and quality in various industry or product sectors. The study about the role of differentiation and cost leadership strategy in predicting the quality performance of Nepalese manufacturing enterprises has not been made.

6.3 Survey procedures

I. The data and sampling design

In order to conduct the research work successfully and effectively, various required (primary and secondary) data have been collected and analyzed. But, primary data have been used to examine the individual impact of differentiation and cost leadership strategy as well as their interaction effect on quality performance in the perspective of perception of higher level employee of selected enterprises. Primary data have been collected through structured questionnaire from department head, company secretary, deputy general manager and general manager/managing director/chief executive officer. Population of number of respondents from different institutions from different sector is 123 which are stated in table 6.6.

Table 6.6
Estimation of respondents

| Name of institution | Number of respondents |
|----------------------------|--|
| Hotel industry | House-Keeping Manager, Food and Beverage Manager, Executive Chef, Chief Accountant, Chief engineer, Human Resource Manager, Front Office Manager, Training Manager, Company Secretary, Deputy General Manager and General Manager (11X3= 33) |
| Manufacturing industry | Department Heads (Technical, Production, Operation, Marketing, Administration, procurement), Company Secretary, Deputy General Manager and General Manager (9X10 = 90) |

Numbers of sample of respondents are 103. Thirty three are from hotel industry and seventy are from manufacturing industry.

II. Method of analysis

A. Competitive strategy measure

The competitive strategy measure comprises of selected items from the scale developed by Miller (1988). The reason for this choice is that the scale included both attitudinal and behavioural aspects of differentiation and cost leadership strategy. The original competitive strategy scaled by Miller has been altered slightly for the purpose of this study, by excluding any items that were not measured via a Likert-scale.

Additionally, items that have been purely quantitative (e.g. R&D expenditure and sales) were excluded post-hoc due to difficulties in obtaining responses. The three-item differentiation strategy measure assesses the use of major and frequent product innovations, product novelty, speed of innovation, and the innovative orientation of the firm. Items relating to more radical innovations, such as undo competitors and high-risk R&D projects, have been excluded as they have not been relevant to the quality focus of this study. Whilst quality is related to innovation, it is more related towards incremental than radical innovation (Prajogo & Sohal, 2001).

The cost leadership scale comprises of two items measuring the extent of price-cutting, expenditure minimization and cost control within the firm. This is similar to the content of the scale used by Fuentes, Montes, and Fernandez, (2006). Most importantly, it is consistent with Porter's (1980) description of this strategy, as the aggressive construction of efficient scale facilities, dynamic search of cost reduction from experience, tight cost and overhead control, avoidance of marginal customers accounts and cost minimization in areas like R&D, service, sales force, advertising and so on. The other items in Miller's scale of cost leadership have not been considered as truly reflective of cost leadership. For example, timid and incremental behaviours in decision-making do not necessarily constitute cost leadership strategy.

B. Quality performance measure

In this study, quality performance is also considered to be a multi-dimensional measure. The scale used by Ahire, Golhar, and Waller (1996) has been adopted for its content validity, construct validity, and reliability. The scale comprises of four items reflecting dimensions of quality performance: reliability, performance, durability, and conformance to specification. These items have been derived from Garvin's (1984) quality dimensions.

As Garvin has been acknowledged as one of the authorities in the area of quality management, this establishes the content validity of these items. Compared to other constructs mentioned above, this scale has superiority in terms of validity and reliability compared to other studies (Dow, Samson, & Ford, 1999; Grandzol & Gershon, 1998).

In terms of the data collection approach, the construct has used perceptual data where the respondents have been asked to assess their organizational performance relative to competitors in their industry (Ahire, *et al.*, 1996). Whilst this approach may appear somewhat inferior because of the potential self-perceptual bias, it can overcome the problem of inter-industry differences as respondents were asked to assess these quality indicators in comparison to the major competitors in the industry (Dow, *et al.*, 1999).

C. Reliability analysis

To check the validity and reliability of the three measures, the method employed by Flynn and Flynn (1994), Samson and Terziovski (1999); and Meyer and Collier (2001) has been followed. The reliability analysis has been conducted by calculating the Cronbach's α with common of the three measures which are differentiation strategy, cost leadership strategy and quality performance.

D. Bivariate correlation

Pearson correlations have been performed as a preliminary analysis on the relationships between cost leadership strategy, differentiation strategy and quality performance.

E. Regression analysis

Hierarchical multiple regression analysis (MRA) has been performed to further test the relationships revealed in the correlation analysis as well as the examination of the interaction effect between two competitive strategies in predicting quality performance. Both differentiation strategy and cost leadership strategy have been treated as independent variables and quality performance as a dependent variable. The interaction effect has been represented by the product term between differentiation and cost leadership strategy. In order to generate a standardized regression model when an interaction term is present, all variables have been converted into z-scores prior to analysis (Tabachnick & Fidell, 2001). Four regression models have been a hierarchically.

The model

The effect of cost leadership and differentiation strategy on quality performance is regressed using the following equations:

$$\text{Qual} = \alpha_0 + \alpha_1 \text{Diff} + \varepsilon \dots \text{(i)} \dots \text{(Prajogo, 2007)}$$

$$\text{Qual} = \alpha_0 + \alpha_1 \text{CL} + \varepsilon \dots \text{(ii)} \dots \text{(Prajogo, 2007)}$$

$$\text{Qual} = \alpha_0 + \alpha_1 \text{DiffCL} + \varepsilon \dots \text{(iii)} \dots \text{(Prajogo, 2007)}$$

$$\text{Qual} = \alpha_0 + \alpha_1 \text{Diff} + \alpha_2 \text{CL} \varepsilon \dots \text{(iv)} \dots \text{(Prajogo, 2007)}$$

Where, Qual = Quality performance CL = Cost leadership strategy

Diff = Differentiation strategy

DiffCL = Interaction of differentiation and cost leadership strategy

Quality performance is a dependent variable. Cost leadership strategy, differentiation strategy and interaction of cost differentiation and cost leadership strategy are independent variables.

6.4 Survey results

This section analyses the views, obtained from the respondents. Profiles of the respondents are described with different parameters.

I. Profile of respondents

Table 6.7 shows the respondents' profile such as gender, industry representation, qualification and experience.

The survey produced total 103 usable respondents. It is observed from the table that 75 persons (72.8 percent) are male and 28 persons (27.2 percent) are female. Out of total respondents, 70 persons are from manufacturing industry and 33 persons are from hotel industry. This table shows that majority of respondents are from manufacturing sector (68 percent) and it is followed by hotel sector (32 percent). Out of total respondents, 49.5 percent have master level degree, and it is followed by 47.6 percent who have bachelor level degree and 2.9 percent who have intermediate level degree.

Table 6.7
Respondent's profile

| Parameters | | Number of respondents | Percentage |
|-------------------------|--------------------|-----------------------|------------|
| Gender | Male | 75 | 72.8 |
| | Female | 28 | 27.2 |
| Industry representation | Manufacturing | 70 | 68 |
| | Hotel | 33 | 32 |
| Qualification | Masters | 51 | 49.5 |
| | Bachelor | 49 | 47.6 |
| | Intermediate | 3 | 2.9 |
| Experience | Below 5 years | 42 | 40.8 |
| | 5 to 10 years | 22 | 21.4 |
| | 10 to 15 years | 18 | 17.5 |
| | 15 to 20 years | 9 | 8.7 |
| | 20 to 25 years | 8 | 7.8 |
| | More than 25 years | 4 | 3.9 |

As regard the respondents' experience, 40.8 percent of them have less than 5 years' experience and it is followed by 21.4 percent have 5 to less than 10 years', 17.5 percent have 10 to less than 15 years', 8.7 percent have 15 to less than 20 years', 7.8 percent have 20 to less than 25 years' and 3.9 percent have more than 25 years' experience.

II. Cost control

Table 6.8 provides the frequency and percentage responses obtained by asking the survey question, "Is there managerial attention to cost control in your organization?" The responses in terms of 'yes' or 'no' or 'no idea' have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.8
Cost control practices in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 99 | 96.1 | 66 | 94.3 | 33 | 100 |
| No | 2 | 1.9 | 2 | 2.9 | 0 | 0 |
| No Idea | 2 | 1.9 | 2 | 2.9 | 0 | 0 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Out of 103 respondents, 96.1 percent have positive response on cost control practices in Nepalese enterprises. 1.9 percent believes that there is no cost control practice in Nepalese enterprises and remaining's are silent.

III. Production policies

Table 6.9 presents the frequency and percentage responses obtained by asking the survey question “Does your organization focus on mass production through economy of scale?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.9
Organization attention on mass production in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 65 | 63.1 | 52 | 74.3 | 13 | 39.4 |
| No | 27 | 26.2 | 15 | 21.4 | 12 | 36.4 |
| No Idea | 11 | 10.7 | 3 | 4.3 | 8 | 24.2 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

In table 6.9 presents in the curiosity of organization attention on mass production through economy of scale, out of total 103 respondents, 63.1 percent respondents have positive response, 26.2 percent have a negative and 10.7 percent have an average response.

IV. Pricing policy

Table 6.10 provides the frequency and percentage responses obtained by asking the survey question, “Are you satisfied in providing product/service at lower price in comparison to competitors?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.10**Pricing policy in comparison to competitors in Nepalese enterprises**

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 51 | 49.5 | 40 | 57.1 | 11 | 33.3 |
| No | 48 | 46.6 | 27 | 38.6 | 21 | 63.6 |
| No Idea | 4 | 3.9 | 3 | 4.3 | 1 | 3 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.10 presents in the interest of satisfaction in providing product/service at lower price in comparison to competitors, total respondents remarked in differently. Out of total 103 respondents near about 50 percent are in favor, near about 47 percent are in opposite and remaining are in normal.

V. Production process policy

Table 6.11 provides the frequency and percentage responses obtained by asking the survey question, “Does your organization have standardized production process?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.11**Policy in production process in Nepalese enterprises**

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 97 | 94.2 | 64 | 91.4 | 33 | 100 |
| No | 4 | 3.9 | 4 | 5.7 | 0 | 0 |
| No Idea | 2 | 1.9 | 2 | 2.9 | 0 | 0 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.11 presents that, out of total 103 respondents, 94.2 percent respondents feel that there is standardized production process, 3.9 percent are against it and 1.9 percent do not have an answer.

VI. Generic strategies and its market

Table 6.12 provides the frequency and percentage responses obtained by asking the survey question “Is cost leadership strategy better than differentiation to coverage of wider market?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.12

Effect of generic strategy to coverage market in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 59 | 57.3 | 37 | 52.9 | 22 | 66.7 |
| No | 26 | 25.2 | 20 | 28.6 | 6 | 18.2 |
| No Idea | 18 | 17.5 | 13 | 18.6 | 5 | 15.2 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.12 explains that, out of total 103 respondents, 57.3 percent give priority on cost leadership strategy, 26 percent give negative response to cost leadership strategy and remaining are quiet.

VII. Cost leadership strategies and its risk

Table 6.13 provides the frequency and percentage responses obtained by asking the survey question, “Is cost leadership strategy easily imitable?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.13

Risk of cost leadership strategy in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 32 | 31.1 | 17 | 24.3 | 15 | 45.5 |
| No | 52 | 50.5 | 42 | 60 | 10 | 30.3 |
| No Idea | 19 | 18.4 | 11 | 15.7 | 8 | 24.2 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Result of table 6.13 approves that, out of total 103 respondents, more than 50 percent agree that cost leadership strategy is not easily imitable. Near about 31 percent respondents are convinced that cost leadership strategy is easily imitable whereas near about 18 percent respondents do not give any opinions.

VIII. Product qualities

Table 6.14 provides the frequency and percentage responses obtained by asking the survey question “Does your organization focus on superior product than competitors?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.14
Product quality of organization in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 89 | 86.4 | 57 | 81.4 | 32 | 97 |
| No | 13 | 12.6 | 12 | 17.1 | 1 | 3 |
| No Idea | 1 | 1 | 1 | 1.4 | 0 | 0 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.14 shows that out of total 103 respondents, 86.4 percent respondents believe that their organization provides superior products and services in comparison to competitors. Near about 13 percent respondents are not satisfied with their organization’s products/ services and the remaining one percent does not say anything.

IX. Research and development expenses

Table 6.15 provides the frequency and percentage responses obtained by asking the survey question, “Does your organization incur more expenses on research and development than competitors?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.15**Expenses on research and development in Nepalese enterprises**

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 51 | 49.5 | 38 | 54.3 | 13 | 39.4 |
| No | 29 | 28.2 | 17 | 24.3 | 12 | 36.4 |
| No Idea | 23 | 22.3 | 15 | 21.4 | 8 | 24.2 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.15 reveals that out of total 103 respondents, near about 50 percent respondents say that organization is focusing on research and development expenses to develop new product, whereas near about 28 percent say that organization is focusing on existing product and the remaining responds are mute on this score.

X. New innovative products/services

Table 6.16 provides the frequency and percentage responses obtained by asking the survey question, “Are you satisfied with providing the new innovative products/services to the customers?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.16**Focus on new innovative products/services in Nepalese enterprises**

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 83 | 80.6 | 52 | 74.3 | 31 | 93.9 |
| No | 14 | 13.6 | 12 | 17.1 | 2 | 6.1 |
| No Idea | 6 | 5.8 | 6 | 8.6 | 0 | 0 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.16 presents that out of total 103 respondents, 80.6 percent respondents are positive with regard to the new innovative products/services to the customers, more than 13 percent respondents are not satisfied with it and the remaining ones are mute on this score.

XI. Brand of products/services

Table 6.17 provides the frequency and percentage responses obtained by asking the survey question “Does your organization focus on strong brand identification?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.17

Focus on brand of products/services in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 101 | 98.1 | 68 | 97.1 | 33 | 100 |
| No | 2 | 1.9 | 2 | 2.9 | 0 | 0 |
| No Idea | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.17 mentions that out of total 103 respondents, all respondents except 2 persons feel proud of their organization’s brand of products/services.

XII. Comparison of cost leadership and differentiation strategy

Table 6.18 provides the frequency and percentage responses obtained by asking the survey question, “Is differentiation strategy better than cost leadership to coverage of wider market?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.18

Comparison of cost leadership and differentiation strategy in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 70 | 68 | 46 | 65.7 | 24 | 72.7 |
| No | 17 | 16.5 | 13 | 18.6 | 4 | 12.1 |
| No Idea | 16 | 15.5 | 11 | 15.7 | 5 | 15.2 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.18 states that out of total 103 respondents, 68 percent respondents are convinced with regard to differentiation strategy, near about 17 percent respondent are against it and the remaining ones are undecided.

XIII. Cost of differentiation strategy

Table 6.19 provides the frequency and percentage responses obtained by asking the survey question, “Is differentiation strategy more expensive?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.19
Cost of differentiation strategy in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 53 | 51.5 | 39 | 55.7 | 14 | 42.4 |
| No | 22 | 21.4 | 12 | 17.1 | 10 | 30.3 |
| No Idea | 28 | 27.2 | 19 | 27.1 | 9 | 27.3 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.19 presents that out of total 103 respondents, Over 50 percent respondents feel that differentiation strategy is more expensive; near about 21 percent respondents are not convinced that differentiation strategy is more expensive and the remaining tread the middle ground.

XIV. Customer demand

Table 6.20 provides the frequency and percentage responses obtained by asking the survey question, “Do the products/services qualities meet the customer demand?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.20**Customer demand on quality of product/service in Nepalese enterprises**

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 97 | 94.2 | 65 | 92.9 | 32 | 97 |
| No | 6 | 5.8 | 5 | 7.1 | 1 | 3 |
| No Idea | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.20 states that, out of 103 respondents, near about 94 percent are satisfied with quality of their organization's products/services and the remaining ones are not satisfied.

XV. Customer feed-back

Table 6.21 provides the frequency and percentage responses obtained by asking the survey question, "Have your organization reduced consumer complaints in comparison to previous five years?" The responses in terms of 'yes' or 'no' or 'no idea' have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.21**Customer feed-back on product/service in Nepalese enterprises**

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 91 | 88.3 | 63 | 90 | 28 | 84.8 |
| No | 5 | 4.9 | 2 | 2.9 | 3 | 9.1 |
| No Idea | 7 | 6.8 | 5 | 7.1 | 2 | 6.1 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.21 reveals that out of total 103 respondents, 88.3 percent respondents say that consumer complaints is in reducing trend in comparison to previous five years, near about 5 percent are negative about it and the remaining ones are silent.

XVI. Output errors

Table 6.22 provides the frequency and percentage responses obtained by asking the survey question, “Have your organization’s level of defects been in decreasing trend in product/services in comparison to previous five years?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.22
Trend of output errors in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|-----------------|------------------|-------------------|----------------------|-------------------|------------------|-------------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 79 | 76.7 | 54 | 77.1 | 25 | 75.8 |
| No | 15 | 14.6 | 9 | 12.9 | 6 | 18.2 |
| No Idea | 9 | 8.7 | 7 | 10 | 2 | 6.1 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

The curiosity of organization’s level of defects has been in decreasing trend in product/services in comparison to the previous five years, Out of total 103 respondents, 76.7 percent respondents have given a positive response, 14.6 percent are against it and 8.7 percent tread the middle ground.

XVII. Employee satisfactions

Table 6.23 provides the frequency and percentage responses obtained by asking the survey question, “Are your employee’s satisfied (in terms of job security, remuneration, future career, etc.) to provide quality product/service to consumers?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.23
Employee satisfaction in terms of quality of product/service in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 69 | 67 | 45 | 64.3 | 24 | 72.7 |
| No | 23 | 22.3 | 18 | 25.7 | 5 | 15.2 |
| No Idea | 11 | 10.7 | 7 | 10 | 4 | 12.1 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.23 presents that out of total 103 respondents, 67 percent respondents are satisfied with their job (in terms of job security, remuneration, future career, etc.), near about 22 percent are dissatisfied with it and the remaining ones are silent.

XVIII. Product knowledge

Table 6.24 provides the frequency and percentage responses obtained by asking the survey question, “Are you satisfied with your product knowledge to sales support?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.24
Product knowledge of employee in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 89 | 86.4 | 56 | 80 | 33 | 100 |
| No | 10 | 9.7 | 10 | 14.3 | 0 | 0 |
| No Idea | 4 | 3.9 | 4 | 5.7 | 0 | 0 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.24 offers that out of total 103 respondents, 86.4 percent respondents have product knowledge to sales support, 9.7 percent are not satisfied in terms of product knowledge and 3.9 percent are silent.

XIX. Quality of product/service

Table 6.25 provides the frequency and percentage responses obtained by asking the survey question, “Are you satisfied with your organizational product/service quality?”

The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.25
Quality of product/service in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 94 | 91.3 | 64 | 91.4 | 30 | 90.9 |
| No | 7 | 6.8 | 5 | 7.1 | 2 | 6.1 |
| No Idea | 2 | 1.9 | 1 | 1.4 | 1 | 3 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.25 exposes that out of total 103 respondents, 91.3 percent respondents have positive response in satisfaction on quality of products/services, 6.8 percent are against it and the remaining ones are silent.

XX. Response to customer

Table 6.26 provides the frequency and percentage responses obtained by asking the survey question, “Are you satisfied at the time of giving customer service?” The responses in terms of ‘yes’ or ‘no’ or ‘no idea’ have been presented in rows. Frequency and percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.26
Response of employee on customer in Nepalese enterprises

| Response | Overall | | Manufacturing | | Hotel | |
|----------|-----------|------------|---------------|------------|-----------|------------|
| | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| Yes | 79 | 76.7 | 47 | 67.1 | 32 | 97 |
| No | 15 | 14.6 | 14 | 20 | 1 | 3 |
| No Idea | 9 | 8.7 | 9 | 12.9 | 0 | 0 |
| Total | 103 | 100 | 70 | 100 | 33 | 100 |

Table 6.26 presents that out of total 103 respondents, 76.7 percent respondents are satisfied at the moment of providing service to customer, 15 percent respondents are dissatisfied and the remaining ones are mute on this score.

XXI. Responsible factors on cost leadership

Table 6.27 provides the weighted average responses (mean) obtained by asking the survey question, “In your opinion, which factor is more responsible for taking strategic decision? The determinants of factors on strategic decision are presented in rows. Means and ranks for information releasing mechanisms are presented for manufacturing, hotel and overall institutions in columns. Out of 103 respondents, 70 are from manufacturing organizations and remaining 33 are from hotels.

Table 6.27

Responsible factors on cost leadership strategic decision in Nepalese enterprises

| Condition | Overall | | Manufacturing | | Hotel | |
|---|------------|------|---------------|------|------------|------|
| | Mean value | Rank | Mean value | Rank | Mean value | Rank |
| 1) Minimizing sales promotion expenses | 4.06 | 6 | 3.99 | 6 | 4.21 | 6 |
| 2) Following/Pursuing cost advantages in raw material purchases | 2.99 | 4 | 3.07 | 4 | 2.82 | 4 |
| 3) Decreasing the number of product features to reduce cost | 4.63 | 7 | 4.66 | 7 | 4.58 | 7 |
| 4) Controlling overhead and variable costs tightly | 2.57 | 3 | 2.56 | 1 | 2.61 | 3 |
| 5) Focus on optimum utilization of existing resources | 2.47 | 1 | 2.61 | 2 | 2.15 | 1 |
| 6) Minimizing costs related to channels of distribution | 3.64 | 5 | 3.61 | 5 | 3.7 | 5 |
| 7) Technological advancement to improve production process | 2.5 | 2 | 2.66 | 3 | 2.18 | 2 |
| 8) Emphasize on low price than customer service | 5.15 | 8 | 4.93 | 8 | 5.61 | 8 |

As per survey, the overall rank indicates the most important ratio useful for focus on optimum utilization of existing resources, followed by technological advancement to improve production process, controlling overhead and variable costs tightly, following/pursuing cost advantages in raw material purchases, minimizing costs related to channels of distribution, minimizing sales promotion expenses, decreasing the number of product features to reduce cost and emphasize on low price than customer service.

XXII. Responsible factors of purchase decision

Table 6.28 provides the weighted average responses (mean) obtained by asking the survey question, “Please consider the following factors affecting organizational decision for determining price, and rank in order of their importance. The determinants of factors on strategic decision have been presented in rows. Means and ranks for information releasing mechanisms have been presented for manufacturing, hotel and overall institutions in columns. Out of 103 respondents, 70 are from manufacturing organizations and remaining 33 are from hotels.

Table 6.28

Responsible factors of purchase decision of consumers in Nepalese Market

| Condition | Overall | | Manufacturing | | Hotel | |
|---------------------------|------------|------|---------------|------|------------|------|
| | Mean value | Rank | Mean value | Rank | Mean value | Rank |
| 1) Economic factor | 1.42 | 1 | 1.41 | 1 | 1.42 | 1 |
| 2) Socio- cultural factor | 2.6 | 2 | 2.61 | 2 | 2.58 | 2 |
| 3) Psychological factor | 2.75 | 3 | 2.79 | 3 | 2.67 | 3 |
| 4) Demographic factor | 2.8 | 4 | 2.83 | 4 | 2.73 | 4 |

The ranks indicate that the perception of employees of hotel and manufacturing organization is same, most important factor is economic factor and it is followed by socio-cultural, psychological and demographic factor.

XXIII. Responsible factors on differentiation strategy

Table 6.29 provides the weighted average responses (mean) obtained by asking the survey question, “In your opinion, which factor is more responsible for taking strategic decision? The determinants of factors on strategic decision have been presented in rows. Means and ranks for information releasing mechanisms have been presented for manufacturing, hotel and overall institutions in columns. Out of 103 respondents, 70 are from manufacturing organizations and the remaining ones 33 are from hotels.

Table 6.29**Responsible factors on differentiation strategic decision in Nepalese enterprises**

| Condition | Overall | | Manufacturing | | Hotel | |
|---|------------|------|---------------|------|------------|------|
| | Mean value | Rank | Mean value | Rank | Mean value | Rank |
| 1) Gaining competitive advantage through superior products | 2.69 | 3 | 2.5 | 3 | 3.09 | 4 |
| 2) Creating superior customer value through service quality | 2.14 | 1 | 2.07 | 1 | 2.27 | 1 |
| 3) Building a brand image of product/service | 2.34 | 2 | 2.34 | 2 | 2.33 | 2 |
| 4) Having cooperative and supportive channels of distribution | 3.72 | 6 | 3.74 | 6 | 3.67 | 7 |
| 5) Developing customer-specific products | 3.1 | 4 | 3.13 | 4 | 3.03 | 3 |
| 6) Emphasizing advertisement and promotion | 4.27 | 8 | 4.23 | 8 | 4.36 | 8 |
| 7) Developing innovative marketing techniques | 3.77 | 7 | 3.89 | 7 | 3.52 | 6 |
| 8) Developing innovative products | 3.64 | 5 | 3.71 | 5 | 3.48 | 5 |

The rank indicates that the perception of employees of hotel and manufacturing organization is near about same. Over all rank indicates that, creating superior customer value through service quality, building a brand image of product/service, gaining competitive advantage through superior products, developing customer-specific products, developing innovative products, having cooperative and supportive channels of distribution, developing innovative marketing techniques and emphasizing advertisement and promotion highest to lowest respectively.

XXIV. Management perceptions on quality

Table 6.30 provides the weighted average responses (mean) obtained by asking the survey question, “In your opinion, top management commitment to quality is.....?” The determinants of factors on strategic decision have been presented in rows. Means and ranks for information releasing mechanisms are presented for manufacturing, hotel and overall institutions in columns. Out of 103 respondents, 70 are from manufacturing organizations and the remaining ones 33 are from hotels.

Table 6.30**Management perception on quality in Nepalese enterprises**

| Condition | Overall | | Manufacturing | | Hotel | |
|--|------------|------|---------------|------|------------|------|
| | Mean value | Rank | Mean value | Rank | Mean value | Rank |
| 1) Clarity of quality goals for the organization | 2.39 | 1 | 2.31 | 1 | 2.55 | 1 |
| 2) Relative importance given by top management to quality as a strategic issue | 3.05 | 3 | 3 | 3 | 3.15 | 5 |
| 3) Relative importance given by top management to quality versus cost | 3.3 | 4 | 3.06 | 4 | 3.82 | 6 |
| 4) Relative importance given by top management to quality versus production schedule | 3.73 | 6 | 3.54 | 6 | 4.12 | 8 |
| 5) Allocation of adequate resources to quality improvement efforts | 3.05 | 3 | 2.96 | 2 | 3.24 | 4 |
| 6) Performance evaluation of managers based on quality | 3.58 | 5 | 3.81 | 7 | 3.09 | 3 |
| 7) Responsiveness to customers | 3.04 | 2 | 3.11 | 5 | 2.88 | 2 |
| 8) Relative importance given by top management to conformance to specification | 4.28 | 7 | 4.43 | 8 | 3.97 | 7 |

The rank indicates that the perception of employees of hotel and manufacturing organization is same in clarity of quality goals for the organization and it is highest ranked by them. But perception of employees of hotel's and manufacturing organizations is different. Over all rank in remaining factors is: responsiveness to customers, relative importance given by top management to quality as a strategic issue, allocation of adequate resources to quality improvement efforts, relative importance given by top management to quality versus cost, performance evaluation of managers based on quality, relative importance given by top management to quality versus production schedule and relative importance given by top management to conformance to specification highest to lowest respectively.

XXV. Purchase decisions of consumers

Table 6.31 presents the weighted average responses (mean) obtained by asking the survey question, "How do you rank the following factors which play vital role in making purchase decision of consumers? The determinants of factors on strategic decision have been presented in rows. Means and ranks for information releasing mechanisms are presented for manufacturing, hotel and overall institutions in columns. Out of 103 respondents, 70 are from manufacturing and the remaining ones 33 are from hotel enterprises.

Table 6.31**Purchase decisions of consumers**

| Condition | Overall | | Manufacturing | | Hotel | |
|--------------|------------|------|---------------|------|------------|------|
| | Mean value | Rank | Mean value | Rank | Mean value | Rank |
| 1) Price | 2.13 | 2 | 2.07 | 2 | 2.24 | 3 |
| 2) Quality | 1.37 | 1 | 1.4 | 1 | 1.3 | 1 |
| 3) Brand | 2.31 | 3 | 2.36 | 3 | 2.21 | 2 |
| 4) Packaging | 3.39 | 4 | 3.34 | 4 | 3.48 | 4 |

The rank indicates that the perception of employees of hotel and manufacturing enterprise is same and most important factor is quality followed by price, brand and packaging.

XXVI. Marketing decision

Table 6.32 provides the weighted average responses (mean) obtained by asking the survey question, “In your opinion, which factor is more responsible for taking marketing decision?” The determinants of factors on strategic decision have been presented in rows. Means and ranks for information releasing mechanisms have been presented for manufacturing, hotel and overall institutions in columns. Out of 103 respondents, 70 are from manufacturing and the remaining ones 33 are from hotel enterprises.

Table 6.32**Responsible factors on marketing decision in Nepalese enterprises**

| Condition | Overall | | Manufacturing | | Hotel | |
|--|------------|------|---------------|------|------------|------|
| | Mean value | Rank | Mean value | Rank | Mean value | Rank |
| 1) Obtaining new customers through lower price than competitors | 2.16 | 3 | 2.1 | 2 | 2.27 | 3 |
| 2) Obtaining new customers through premium product | 2.11 | 2 | 2.17 | 3 | 1.97 | 2 |
| 3) Obtaining new customers through the fulfillment of their requirements | 1.48 | 1 | 1.5 | 1 | 1.42 | 1 |

The ranks indicate that the perception of employees of hotel and manufacturing enterprises is same on obtaining new customers through the fulfillment of their requirements is highest ranked by respondents of both sectors but the remaining factors are ranked by senior employees of manufacturing and hotels differently.

XXVII. Strategic decisions

Table 6.33 provides the frequency and percentage of responses obtained by asking the survey question, “Who plays the vital role on strategic decision?” Categorization of hierarchical positions have been presented in rows. Frequency, percentage and rank on the basis of frequency or percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.33

Hierarchical influence in strategic decision in Nepalese enterprises

| Person | Manufacturing | Hotel | Total | Percentage | Rank |
|------------------|----------------------|--------------|--------------|-------------------|-------------|
| a) Board members | 16 | 5 | 21 | 20.4 | 2 |
| b) Chairman | 8 | 1 | 9 | 8.7 | 4 |
| c) CEO/MD/GM | 39 | 17 | 56 | 54.4 | 1 |
| d) Managers | 7 | 10 | 17 | 16.5 | 3 |
| Total | 70 | | 103 | 100 | |

The overall rank indicates that CEO/MD/GM position influences highly and it is followed by board members, managers and chairman in strategic decision respectively.

XXVIII. Pricing method

Table 6.34 provides the frequency and percentage of responses obtained by asking the survey question, “What is your pricing method?” Categorization of hierarchical positions have been presented in rows. Frequency, percentage and rank on the basis of frequency or percentage of responses for manufacturing organization, hotel and overall are presented in columns.

Table 6.34

Pricing method in Nepalese enterprises

| Method | Manufacturing | Hotel | Total | Percentage | Rank |
|------------------|----------------------|--------------|--------------|-------------------|-------------|
| a) Competitive | 44 | 21 | 65 | 63.1 | 1 |
| b) Premium | 9 | 3 | 12 | 11.7 | 3 |
| c) Extra premium | 3 | 0 | 3 | 2.9 | 4 |
| d) Lower | 1 | 1 | 2 | 1.9 | 5 |
| e) Situational | 13 | 8 | 21 | 20.4 | 2 |
| Total | 70 | 33 | 103 | 100 | |

The overall rank indicates that pricing is maximum influenced by competitive and it is followed by situational, premium, extra premium and lower respectively.

XXIX. Marketing strategic decision

Table 6.35 provides the frequency and percentage of responses obtained by asking the survey question, “What is your major marketing strategic decision?” Categorization of hierarchical positions has been presented in rows. Frequency, percentage and rank on the basis of frequency or percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.35

Marketing strategic decision in Nepalese enterprises

| Strategic decision | Manufacturing | Hotel | Total | Percentage | Rank |
|---|---------------|-------|-------|------------|------|
| a) To minimize cost per unit of existing product or service quality | 28 | 7 | 35 | 34 | 2 |
| b) To add additional attributes in existing product or service | 25 | 19 | 44 | 42.7 | 1 |
| c) To search new product or service | 17 | 7 | 24 | 23.3 | 3 |
| Total | 70 | 33 | 103 | 100 | |

The overall rank indicates that highest influence factor on marketing strategic decision is to add additional attributes in existing product or service, then to minimize cost per unit of existing product or service quality and lastly to search new product or service respectively.

XXX. Consumer decision

Table 6.36 provides the frequency and percentage of responses obtained by asking the survey question, “Which major factor affects on consumer decision?” Categorization of hierarchical positions has been presented in rows. Frequency, percentage and rank on the basis of frequency or percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.36

Consumer decision in Nepalese enterprises

| Factors | Manufacturing | Hotel | Total | Percentage | Rank |
|---------------------------------|---------------|-------|-------|------------|------|
| a) Quality | 38 | 18 | 56 | 54.4 | 1 |
| b) Brand | 8 | 9 | 17 | 16.5 | 3 |
| c) Price | 21 | 6 | 27 | 26.2 | 2 |
| d) Image of the producer/seller | 3 | 0 | 3 | 2.9 | 4 |
| Total | 70 | | 103 | 100 | |

The overall rank indicates that highest influence factor on consumer decision is quality followed by price, brand and image of the producer/seller respectively.

XXXI. Consumer feed-back

Table 6.37 provides the frequency and percentage of responses obtained by asking the survey question, “What major feed-back do you get from the consumers?” Categorization of hierarchical positions has been presented in rows. Frequency, percentage and rank on the basis of frequency or percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.37
Consumer feed-back in Nepalese enterprises

| Feed-back | Manufacturing | Hotel | Total | Percentage | Total |
|------------|---------------|-------|-------|------------|-------|
| a) Price | 20 | 2 | 22 | 21.4 | 3 |
| b) Quality | 29 | 11 | 40 | 38.8 | 1 |
| c) Credit | 8 | 0 | 8 | 7.8 | 4 |
| d) service | 13 | 20 | 33 | 32 | 2 |
| Total | 70 | 33 | 103 | 100 | |

The overall rank indicates that highest concentration of consumer is quality followed by service, price and credit.

XXXII. Duration of change in strategic decision

The table 6.38 provides the frequency and percentage of responses obtained by asking the survey question, “How frequently do you change your strategic decision?” Categorization of hierarchical positions has been presented in rows. Frequency, percentage and rank on the basis of frequency or percentage of responses for manufacturing organization, hotel and overall have been presented in columns.

Table 6.38
Duration of change in strategic decision in Nepalese enterprises

| Period | Manufacturing | Hotel | Total | Percentage | Total |
|--------------------------------|---------------|-------|-------|------------|-------|
| a) 1 year | 24 | 21 | 45 | 43.7 | 1 |
| b) 2 years | 14 | 4 | 18 | 17.5 | 3 |
| c) 3-5 years | 16 | 5 | 21 | 20.4 | 2 |
| d) More than 5 years | 3 | 1 | 4 | 3.9 | 5 |
| e) On the basis of requirement | 13 | 2 | 15 | 14.6 | 4 |
| Total | 70 | 33 | 103 | 100 | |

Majority of the respondents indicate that the strategy has changed within a year.

XXXIII. Reliability test

Table 6.39 provides measurement value of Cronbach's alpha for measuring reliability of five-point Likert-scale questionnaires.

Table 6.39
Reliability statistics

| Cronbach's Alpha | No of items |
|------------------|-------------|
| 0.862 | 9 |

Value of Cronach's alpha is 0.862 which is greater than 0.7. Hence, there is no need to improve the Cranach's alpha for the test of consistency of questionnaire for reliability analysis which is included in appendix.

XXXIV. Correlation matrixes

Differentiation strategy, cost leadership strategy and quality performance are constructed through weighted average of response of respondents (Prajogo, 2007). Correlation matrixes of four variables are differentiation strategy, cost leadership strategy, interaction of differentiation and cost leadership strategy and quality performance have been presented in table 6.40.

Table 6.40
Pearson correlation matrix

| | Diff | CL | DiffCL | Qual |
|--------|--------|--------|--------|------|
| Diff | 1 | | | |
| CL | 0.417* | 1 | | |
| DiffCL | 0.864* | 0.796* | 1 | |
| Qual | 0.572* | 0.242* | 0.488* | 1 |

*Note: * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels*

The table 6.40 presents correlations between four variables. There is a positive but low degree of correlation between differentiation strategy and cost leadership strategy, cost leadership strategy and quality performance as well as interaction of cost leadership and differentiation strategy with quality performance at 1 percent significant level. There is

a positive but moderate degree of correlation between differentiation strategy and quality performance at 1 percent significant level. Similarly, there is a high degree of positive correlation between differentiation strategy with interaction of cost leadership and differentiation strategy as well as cost leadership strategy with interaction of cost leadership and differentiation strategy at 1 percent significant level.

XXXV. Regression analyses

A regression result of quality performance on differentiation strategy, cost leadership strategy and interaction of cost leadership and differentiation strategy can be expressed by the following regression equation:

$$\text{Qual} = \alpha_0 + \alpha_1 \text{Diff} + \varepsilon \dots \text{ (i)}$$

$$\text{Qual} = \alpha_0 + \alpha_1 \text{CL} + \varepsilon \dots \text{ (ii)}$$

$$\text{Qual} = \alpha_0 + \alpha_1 \text{DiffCL} + \varepsilon \dots \text{ (iii)}$$

$$\text{Qual} = \alpha_0 + \alpha_1 \text{Diff} + \alpha_2 \text{CL} + \varepsilon \dots \text{ (iv)}$$

Where, Qual = quality performance, α_0 = constant value, α_1 and α_2 are slope of independent variables. Diff is differentiation strategy; CL is cost leadership strategy which is computed on the basis of weighted average value perception of senior level managers of Nepalese listed enterprises of manufacturing and hotel industries. DiffCL is product of cost leadership and differentiation strategy and $\varepsilon \dots$ is error term. Before dependent variable is regressed on independent variables, Glejser test has been used for detecting heteroscedasticity problem and which is not found. The computed values of the regression equation for the selected enterprises are presented in table 6.41.

In the regression results of single regression model first, the value of R^2 is 0.328. Therefore the explanatory power of the model is estimated at 32.8 percent. The F-statistic is also statistically significant at 1 percent level. The value of DW (1.755) indicates that there is no autocorrelation. The positive sign of coefficient value of single independent variable which is statistically significant at 1 percent LOS indicates that there is a positive impact of differentiation strategy in predicting quality performance i.e. this regression equation supports the hypothesis eight. It is similar result with (Prajogo, 2007).

Table 6.41

Regression results of quality performance on differentiation strategy, cost leadership strategy and combination of differentiation and cost leadership strategy

| Variables | Model I | Model II | Model III | Model IV |
|---|---------|----------|-----------|----------|
| Constant | | | | |
| Coefficient | 1.678* | 2.614* | 2.549* | 1.667* |
| S.E. | 0.305 | 0.457 | 0.23 | 0.416 |
| T-Value | 5.5 | 5.719 | 11.086 | 4.006 |
| Diff | | | | |
| Coefficient | 0.608* | | | 0.606* |
| S.E. | 0.087 | | | 0.096 |
| T-Value | 7.014 | | | 6.326 |
| VIF | | | | 1.21 |
| CL | | | | |
| Coefficient | | 0.331** | | 0.005 |
| S.E. | | 0.132 | | 0.124 |
| T-Value | | 2.504 | | 0.042 |
| VIF | | | | 1.21 |
| DiffCL | | | 0.101* | |
| Coefficient | | | 0.018 | |
| S.E. | | | 5.612 | |
| T-Value | | | | |
| VIF | | | | |
| R-square | 0.328 | 0.058 | 0.238 | 0.328 |
| F-value | 49.2* | 6.272** | 31.49** | 24.358* |
| D.W. | 1.755 | 1.626 | 1.617 | 1.754 |
| Number of Observations = 103 Note: * Significant at 0.01 levels ** Significant at 0.05 levels *** Significant at 0.10 levels | | | | |

In the result of single regression model second, the explanatory power of the model is reasonably low given as the R^2 is estimated at 5.8 percent. The F-statistic is statistically significant at 5 percent. The value of DW (1.626) indicates that there is no autocorrelation. The positive sign of coefficient value of single independent variable (statistically significant at 5 percent LOS) indicates a positive impact of cost leadership strategy in predicting quality performance i.e. this regression equation supports the hypothesis nine. It records similar result with the relationship between competitive strategies and product quality (Prajogo, 2007).

The result of single regression model third, the explanatory power of the model is estimated at 23.8 percent. The F-statistic is also statistically significant at 5 percent level. The value of DW (1.617) indicates that there is no autocorrelation. The positive sign of coefficient value of single independent variable (statistically significant at 1

percent LOS) indicates a positive impact of interaction between cost leadership and differentiation strategy in predicting quality performance i.e. this regression equation supports the hypothesis ten. It is similar result with (Prajogo, 2007).

With respect to the result of multiple regression model fourth, the explanatory power of the model is 32.8 percent. The F-statistic is also statistically significant at 1 percent. The value of DW (1.754) indicates that there is no autocorrelation. The positive sign of coefficient value of independent variable differentiation strategy statistically significant at 1 percent level but coefficient value of cost leadership strategy is statistically insignificant. This indicates that there is a positive impact of differentiation strategy in predicting quality performance i.e. this regression equation supports the hypothesis eight.

XXXVI. Respondents result

Majority of respondents' perception of individual enterprises about generic strategies has been given in table 6.42.

Table 6.42

Respondents result of individual enterprises

| Name of enterprises | Emphasis on generic strategies |
|--|---------------------------------------|
| BNL, BNTL, UNL, NBBUL, FHL, HDL, and SHL | Differentiation strategy |
| GRUL, SSML, RJML, NLOL, OHL, and TRHL | Cost leadership strategy |

Table 6.42 presents that senior executive of BNL, BNTL, UNL, NBBUL, FHL, HDL, and SHL are emphasized on differentiation strategy. Similarly, senior executives of GRUL, SSML, RJML, NLOL, OHL, and TRHL are focused on cost leadership strategy.

6.5 Discussion

To sum up, cost leadership strategy and differentiation strategy signify two fundamentally different approaches to achieve competitive advantage. Cost leadership strategy seeks to achieve above-average returns over competitors through low prices by

driving all components of activities towards reducing costs. To attain such a relative cost advantage, firms will put considerable effort in controlling and production costs, increasing their capacity utilization, controlling materials supply or product distribution, and minimizing other costs, including R&D and advertising.

In contrast, differentiation strategy aims to build up competitive advantage by offering unique products which are characterized by valuable features, such as quality, innovation, and customer service. Differentiation can be based on the product itself, the delivery system, and a broad range of other factors. With these differentiation features, firms provide additional values to customers which will reward them with a premium price. On the basis of perception of respondents, this study has shown that there is a positive relationship between differentiation strategy and quality performance as well as cost leadership strategy and quality performance in Nepalese enterprises. Similarly, there is a positive relationship between interaction of differentiation and cost leadership strategy in predicting quality performance in Nepalese enterprises.

The survey results reflect that the majority of enterprises focus on cost control, mass production and standardized production process. Based on the survey result, it is approved that cost leadership is not easily imitable and differentiation strategy is more expensive. Most of the Nepalese enterprises focus on superior product than competitors, new innovative product and brand identification. Both strategies i.e. differentiation and cost leadership are better to coverage wider market. Most of the Nepalese enterprises focus on research and development activities and they provide new innovative products/services.

Most of the Nepalese enterprises provide quality products/services on the basis of customer demand. Employees are satisfied (in terms of job security, remuneration, future career, etc.) to provide quality product/service to consumers. According to perception of respondents, they have product knowledge to sales support. Hence, there is a decreasing trend in the production of defective product/service and consumer complaints are reduced in comparison to previous five years.

The survey results reflect that high focus is given on creating superior customers value through service quality, obtaining new customers through fulfillment of their requirements, following optimum utilization of existing resources, adding additional

attributes in existing product or service and highly focus on clarity of quality goals for the organization for taking strategic decision. Out of different (economic, socio-cultural, psychological and demographic) factors, economic factor is more valuable factor for determining economic decision and it is followed by socio-cultural, psychological and demographic factors respectively.

Out of different pricing (competitive, premium, extra premium, lower and situational) methods, competitive method is more appropriate for pricing and it is followed by situational, premium, extra premium and lower respectively. Quality plays vital role in purchase decision of end consumer and it is followed by price, brand and packaging respectively. Quality is highly valuable factor in consumer decision and it is followed by price, brand and image of the producer/seller respectively. Consumers are highly conscious of quality, service, price and credit respectively. Chief executive officer/Managing director/General manager plays a vital role for taking strategic decision and decision is changed in a year.

There is a positive relation between different variables at one percent significant level and these variables are differentiation strategy, cost leadership strategy and combination of differentiation and cost leadership strategy in Nepalese enterprises. These variables are constructed through weighted average value of response of all respondents on the basis of empirically tested previous research article. Result of regression analysis, coefficient value of independent variables of cost differentiation strategy, cost leadership strategy and combination of differentiation and cost leadership strategy is positive and statistically significant at 5 percent level. Hence, regression result supports the hypotheses 8, 9 and 10 and it is approved that there is a positive relationship between differentiation strategy and quality performance, cost leadership strategy and quality performance, cost leadership and differentiation strategy in predicting quality performance in Nepalese enterprises and it is similar result with (Prajogo, 2007). The perception of senior executives of BNL, BNTL, UNL, NBBUL, FHL, HDL, and SHL emphasizes on differentiation strategy. Similarly, senior executives of GRUL, SSML, RJML, NLOL, OHL, and TRHL are stresses on cost leadership strategy.

CHAPTER VII

Summary, Conclusion, and Recommendations

7.1 Summary

The studies on the generic strategies and performance of Nepalese enterprises play an important role in the development of an economy. Developing countries like Nepal need to follow appropriate strategy to boost and operate the economic activities by appropriate strategic plan from hotel and manufacturing sector. Organization can attain a competitive advantage either by following cost leadership or differentiation strategy. If an organization adopting a cost leadership strategy attains its advantage based on operational efficiency, its superior performance is likely to dissipate over time since such an advantage may be easily imitable. On the other hand, organization that adopts strategies based on differentiation may attain advantages that endure, and hence the performance of such organization is likely to be sustained over time. Through this study the above-mentioned proposition is empirically examined by using widely available archival financial data.

Cost leaders can achieve above-average returns by charging low prices for their products and seeking out customers who care more about price than about image or novelty. On the other hand, organization adopting the differentiation strategy achieves a competitive advantage by providing products or services that offer unique qualities desirable to customers, which allow the firm to command a price premium. This empirical study adds evidence to the effect of cost leadership and differentiation strategy on sustainability of financial performance of Nepalese listed manufacturing enterprises.

This study focuses on the market perception of different strategies pursued by firms. Empirical data have been used for a sample of publicly traded firms to investigate how capital markets perceive and reward strategies pursued by firms. This study evaluates the market perception by using Tobin's Q from firms pursuing the strategies. In addition, it also investigates the differential impact of different types of strategy (i.e. differentiation and cost leadership) on the market value of firms. Capital markets reward firms pursuing either of these strategies; however it values firms pursuing differentiation higher than the cost leadership strategy or vice versa. Hence, it also

examines how do capital markets perceive and reward the strategies pursued by firms in Nepalese listed enterprises.

A cost leadership strategy is closely linked to productivity improvements, as productivity is the proficiency with which different inputs are combined to generate a specified output. Although the implementation of the two strategies will be different (with cost leadership relying on productivity enhancements, while differentiation seeks innovation and brand loyalty), successful implementation of either strategy will lead to better performance. Better performance leads to lower risk of bankruptcy. Hence, the examination of the relationship between bankruptcy risk and firms strategy of Nepalese listed enterprises is desirable.

An organization pursuing a differentiation strategy exhibits greater cost stickiness, on average, as compared to firms pursuing a cost leadership strategy. Furthermore, this relationship between firms' strategic positioning and cost behavior is moderated by the optimistic or pessimistic expectations of managers for future sales. The strategic positioning of a firm affects management decisions on resource commitments, which is reflected in systematic differences in the firm's cost behavior.

When sales fall, cost leaders reduce their unused capacity quickly to avoid a loss. Relative to differentiators, cost leaders can more easily increase their resources to mirror sales increases as the acquired resources are not as unique or specialized as the differentiators. Cost leaders have lower adjustment costs and maintain more flexible cost structures than differentiators. Overall, it is expected that facing sales decreases, differentiators will carry more unused capacity resources to save adjustment costs than cost leaders. This study has investigated how strategic positioning affects managers' decisions about resource commitment, leading to asymmetric cost behavior. This study has focused on strategic positioning and asymmetric cost behavior of Nepalese listed enterprises.

Quality is a perceptual, conditional and somewhat subjective attribute and may be understood differently by different people. Consumers may focus on the specification quality of a product/service and it compares to competitors in the marketplace. Producers might measure the conformance quality or degree to which the product/service was produced correctly. In another word product quality is the

product's ability to fulfill the expectations and needs set by the end user. Quality is considered as directly inverse to the cost. This seems to be compatible with a cost leadership strategy that seeks the lowest possible unit cost in production. In light of the above, information which decipher the quality performance and its related generic strategies. This study has focused on quality performance is predicted by differentiation strategy, cost leadership strategy and a combination of both strategies in Nepalese listed enterprises.

This study has mainly aimed at assessing performance of generic strategies in listed enterprises of hotel as well as manufacturing. The specific objectives have been (1) to analyze the relationship between strategic positioning of firm and the sustainability of financial performance (2) to examine the capital market perception of firm strategy (3) to examine the relationship between bankruptcy risk and firm strategy (4) to evaluate the relationship between strategic positioning and asymmetric cost behavior (5) to examine the industrial impact of differentiation and cost leadership as well as their interaction effect on quality performance, and (6) to analyze the views of executives on impact of strategic practices in quality performance in Nepalese market.

This study has covered three listed hotel industries which are SHL, OHL and TRHL and ten listed manufacturing industries which are BNL, BNTL, UNL, NBBUL, GRUL, FHL, SSML, HDL, RJML and NLOL. This study is based on secondary as well as primary data. Secondary data have been used for the detailed analysis of assessment of sustainability of financial performance of generic strategy, capital market perception of generic strategy, impact of generic strategy on bankruptcy risk, strategic positioning and asymmetric cost behavior. Secondary data have been collected through from annual audit report. These data have been collected through different institutions like Securities Board of Nepal, Nepal Stock Exchange, office of the Company Registrar, and office of the concern organization.

Similarly primary data have been used for the detailed analysis of impact of differentiation strategy, cost leadership strategy and combination of differentiation and cost leadership strategy on predicting quality performance and analyze the views of senior executives on impact of strategic practices in Nepalese market. Primary data have been collected through structured questionnaire from department head, company secretary, general manager/chief executive officer/managing director and their

assistant. Population of respondents has been 123 and sample of respondents has been 103, out of them 33 have been from listed hotel industries and the remaining ones have been from listed manufacturing enterprises. Primary data have been collected during the three month period i. e. from July, 2014 to August 2014.

The research designs adopted in this study consists of descriptive and causal-comparative to deal with the various issues raised in this study. Secondary data have been analyzed through trend analysis, factor analysis, descriptive statistics, correlation analysis and regression analysis and primary data have been analyzed through competitive strategy measure, quality performance measure, reliability analysis, descriptive statistics, correlation, and regression analysis.

Major findings

Based on the analysis of data, the major findings of the study are summarized as follows:

1. The average return on assets is the largest for UNL (25 percent) followed by BNTL (7.1 percent), BNL (5 percent), SHL (2.5 percent), NLOL (1.9 percent), NBBUL (1.1 percent), RJML (0.6 percent), OHL (-1.5 percent), TRHL (-1.8 percent), HDL (-3 percent), SSML (-3.8 percent), GRUL (-10.1 percent) and FHL (-14.1 percent). Average return on assets of 13 enterprises is negative up to fiscal year 2005/06 then it is positive for the remaining fiscal years.
2. Average cash available from operating activities to total assets is largest for UNL (25.6 percent) followed by NLOL (17 percent), RJML (15.1 percent), BNTL (13 percent), HDL (11.7 percent), BNL (10.4 percent), SHL (6.1 percent), TRHL (2.7 percent), GRRUL (1.6 percent), OHL (0.2 percent), SSML (0.1 percent), NBBUL (-2.6 percent) and FHL (-8.7 percent). The ratio of weighted average of cash from operations to total assets of 13 enterprises in 12 years is 7.1
3. The average market value per share of 13 firms decreased from Rs. 303.62 in fiscal year 2000/01 to Rs. 252.46 2002/03 then it increased up to Rs. 530.62 2008/09. This value was Rs. 778.31 in fiscal year 2011/12.
4. Factor analysis has been carried out to reduce four different variables MARGIN (sales divided by cost of goods sold) CAPEX (capital expenditure on property, plant and equipment divided by net sales) SG&A (total sales, general and

administrative expenditure divided by net sales) and CAPINT (net book value of plant and equipment divided by net sales) into two variables. MARGIN and SG&A variables supported differentiation strategy while remaining variables CAPEX and CAPINT supported cost leadership strategy. This finding is similar to Banker, *et al.* (2006).

5. Mean value and standard deviation of both strategies i.e. cost leadership and differentiation is 0 and 1 respectively. Median value of differentiation strategy cost leadership strategy is -0.2323 and -0.2752 respectively. Maximum and minimum value of differentiation and cost leadership strategy are -1.1957, 2.71035) and (-1.6178, 7.5873) respectively. Similarly value of first and third quartile of differentiation and cost leadership strategy are (-0.5865, 0.29539) and (-0.4284, -0.0648) respectively.
6. Cost leadership and differentiation strategy are beneficial to increase return on assets but the result is not clear in terms of appropriate strategy to increase return on assets in the future in individual comparison.
7. There is an insignificant impact of cost leadership strategy on the ratio of cash from operations to total assets. In the context of differentiation strategy, there is positive as well as negative significant impact. Hence, the finding results are not clear as to which strategy is appropriate to increase the performance of cash from operations to total assets in the future.
8. Coefficient value of cost leadership is greater than differentiation, under the condition of market value per share regressed on cost leadership and differentiation strategy including controlled variables book value per share and earning per share. It indicates that investors place higher price-earnings multiple when valuing securities of a firm pursuing a cost leadership strategy which is just opposite to prior expectation. This finding also contradicts with Banker, *et al.* (2006).
9. From perspective of measurement of correlations of differentiation strategy and return on assets is positive in period 3 to 5 but inverse relations in period 1 and 2. Coefficients are statistically insignificant and hence the correlation between differentiation strategy and return on assets is not conclusive. Result of correlations between cost leadership strategy and return on assets in period 1 to 5 is inverse relationship at where majority of the coefficients are statistically

significant. Therefore, cost leadership strategy and return on return on assets have inverse relationship.

10. Correlation coefficients between cash from operations to total assets and differentiation strategy are low negative and insignificant for first two periods but positive for following three periods. But in the case of cash from operations to total assets and cost leadership strategy, correlation coefficients are negative and statistically significant (except for fifth period). This indicates that cash from operations to total assets is negatively correlated with cost leadership strategy but not consistent correlation with differentiation strategy.
11. Correlation analysis presents, there is low degree of inverse relationship between differentiation and cost leadership strategy separately with market value per share, book value per share and earning per share but it is insignificant at 5 percent level.
12. The initial four variables, namely, MARGIN, SG&A, SCAPEX (Sales divided by capital expenditure on property, plant and equipment) and SPE (Sales divided by book value of plant and equipment) are reduced into two variables by performing factor analysis. MARGIN and SG&A support component 1 and it is denoted by differentiation strategy and remaining two variables support component 2 and it is denoted by cost leadership strategy. This result is similar to Asdemir, *et al.* (2013).
13. The average value of Tobin's Q is the largest for UNL (2.954) followed by FHL (2.217), SHL (2.124), GRUL (1.688), BNL (1.665), HDL (1.379), OHL (1.325), SSML (1.302), BNTL (1.262), NLOL (1.209), and NBBUL (0.963), TRHL (0.961) and RJML (0.907). Average value of Tobin's Q of 13 firms is largest for fiscal year 2007/08 (1.935) followed by 08/09 (1.814), 09/10 (1.708), 10/11 (1.708), 06/07 (1.673), 05/06 (1.495), 11/12 (1.403), 04/05 (1.381), 00/01 (1.376), 01/02 (1.362), 03/04 (1.286), and 02/03 (1.279). Weighted average value of Tobin's Q of 13 enterprises of 12 fiscal years is 1.535.
14. Mean (median) value of Tobin's Q is 1.46976 (1.38114). Maximum and minimum value is -1.9474 and 3.84747 respectively.
15. Low degree of positive correlation is observed between differentiation strategy with capital market perception, natural logarithm of total assets and capital

expenditure divided by sales of a firm *i* in a year *t* at 1 percent level. There is a low degree of inverse relationship between cost leadership strategy and natural logarithm of total assets at 1 percent level and cost leadership strategy with natural logarithm of cash dividend at 5 percent level.

16. Value of Tobin's Q has been regressed on cost leadership and differentiation strategy with different five controlled variables. Results of six different multiple regressions state that capital markets place a positive value on differentiation strategy and negative value on cost leadership strategy. It does not support hypothesis three but supports hypothesis four. Result is similar to Asdemir, *et al.* (2013) in respect of hypothesis four.
17. Average value of Altman Z-score varies widely from one enterprise to another as well as year to year. Average Altman Z-score is the largest for UNL (4.915) followed by FHL (2.424), BNTL (1.962), NLOL (1.826), BNL (1.783), SHL (1.723), RJML (1.566), NBBUL (1.536), HDL (1.079), OHL (0.545), SSML (0.386), GRUL (0.26) and TRHL (0.029) of 12 fiscal years from 2000/01 to 2011/12. Largest average score of Z is for fiscal year 2009/10 (2.056), 11/12 (2.015), 08/09 (1.905), 10/11 (1.896), 07/08 (1.696), 06/07 (1.522), 00/01 (1.474), 03/04 (1.305), 01/02 (1.195), 04/05 (1.169), 05/06 (1.164), 02/03 (1.095). Weighted average value of Altman Z-score of 13 enterprises of 12 fiscal years is 1.541.
18. Mean and standard deviation of both cost leadership and differentiation strategy is 0 and 1 respectively. Difference between maximum value and minimum value of cost leadership strategy is greater than that of differentiation strategy. Mean and median value of Altman Z-score is 1.272148 and 1.284654 respectively. Minimum and maximum value is 0.14012 and 4.0287 respectively.
19. The results of four regression models show that coefficients of independent variable, that is differentiation strategy are negative and statistically significant (except model-I). It reveals that higher degree of differentiation strategy increases bankruptcy risk in Nepalese enterprises. It is opposite to prior expectation in hypothesis five and also contradicts with the result of Bryan, *et al.* (2013). On the other hand, the coefficients of independent variable that is cost leadership strategy are positive but statistically insignificant. Therefore, result is not clear in the context of hypothesis six.

20. The average change on cost ratio is largest for HDL (1.28 times) followed by NBBUL (1.22 times), NLOL (1.184 times), BNL (1.165 times), RJML (1.149 times), OHL (1.113 times), TRHL (1.126 times), SSML (1.123 times), BNTL (1.1 times), UNL (1.094 times), FHL (1.089 times), SHL (1.057 times) and GRUL (1.017 times).
21. The average change on sales ratio is largest for HDL (1.316 times) followed by NBBUL (1.224 times), TRHL (1.223 times), NLOL (1.192 times), BNL (1.159 times), RJML (1.149 times), FHL (1.144 times), OHL (1.112 times), BNTL (1.108 times), SHL (1.108 times), SSML (1.107 times), UNL (1.106 times and GRUL (1.008 times).
22. The average net profit margin ratio varies from one enterprise to another. The average net profit margin is largest for UNL (12.86 percent) followed by BNTL (8.35 percent), BNL (5.8 percent), NLOL (1.65 percent), RJML (0.52 percent), NBBUL (0.44 percent), SHL (-0.23 percent), SSML (-2.71 percent), OHL (-15.01 percent), GRUL (-18.05 percent) and HDL (-19.33 percent) TRHL (-28.59 percent and FHL (-34.6 percent).
23. The average assets turnover ratio is largest for UNL (1.92 times) followed by RJML (1.39 times), NBBUL (1.23 times), NLOL (1.03 times), HDL (0.96 times), BNTL (0.84 times), SSML (0.75 times), BNL (0.74 times), SHL (0.7 times), GRUL (0.61 times), FHL (0.5 times), OHL (0.27 times), TRHL (0.15 times).
24. Mean (S.D.) of logarithm of change in costs is 0.10735 (0.07327), minimum and maximum value is -0.0449 and 0.30762 respectively. Mean (S.D.) of logarithm of change in sales revenue is 0.11761(0.08068) minimum and maximum value is 0.08068 and 0.32305 respectively.
25. Mean (S.D.) of profit margin is 0.07886 (0.1067) minimum and maximum value is 0.00032 and 0.58641 respectively. Mean (S.D.) of assets turnover rate is 2.53544 (0.1067) minimum and maximum value is 0.13751 and 27.1395 respectively.
26. Correlation between logarithm of change in costs and logarithm of change in sales revenue is high degree of positive at 1 percent level. Correlation between

logarithm of change in costs with profit margin and with assets turnover rate is low degree of positive and significant at 10 percent and 5 percent level. Correlation between profit margin and assets turnover rate is moderate degree of positive correlation at 1 percent level. Correlation coefficient between logarithm of change in cost ratio and interaction of Dec, profit margin and logarithm of change in sales ratio is low degree of inverse relation at 5 percent level but Correlation coefficient between logarithm of change in cost ratio and interaction of Dec, assets turnover rate and logarithm of change in sales ratio is low degree of positive relation at 1 percent level.

27. Coefficient of independent variable that is product of Dec i.e. dummy variable, average profit margin and logarithm of change in sales ratio with dependent variable logarithm of change in cost ratio is negative. Coefficient of another independent variable that is product of Dec i.e. dummy variable, average assets turnover rate and logarithm of change in sales ratio and dependent variable logarithm of change in cost ratio is positive. Hence, other things remaining the same, cost stickiness of firms pursuing a differentiation strategy is higher than that of firms following a low cost strategy in Nepalese enterprises. The empirical results are as per prior expectation. This result is similar to Banker, *et al.* (2013).
28. The survey results reflect that the majority of enterprises focus on differentiation strategy, cost leadership strategy as well as combination of differentiation and cost leadership strategy.
29. Survey result has shown that the cost leadership is not easily imitable and differentiation strategy more expensive. Most of the Nepalese enterprises are focused on superior product than competitors, new innovative product and brand identification. Both strategies i.e. differentiation and cost leadership are better to coverage wider market.
30. Obtaining new customers through fulfilling requirement of customers, optimum utilization of existing resources, to add additional attributes in existing product or service and focus on clarity of quality goals for the organization for taking strategic decision.

31. As per survey, the overall rank indicates that focus on optimum utilization of existing resources is most responsible factor on cost leadership strategic decision in Nepalese enterprises and it is followed by technological advancement to improve production process, controlling overhead and variable costs tightly, following/pursuing cost advantages in raw material purchases, minimizing costs related to channels of distribution, minimizing sales promotion expenses, decreasing the number of product features to reduce cost and emphasize on low price than customer service.
32. The survey results show that 'creating superior customer value through service quality' is most responsible factor on differentiation strategic decision and it is followed by building a brand image of product/service, gaining competitive advantage through superior products, developing customer-specific products, developing innovative products, having cooperative and supportive channels of distribution, developing innovative marketing techniques and emphasizing advertisement and promotion respectively.
33. Quality plays vital role in purchase decision of end consumer and it is followed by price, brand and packaging. Consumers are highly conscious on quality, service, price and credit facility respectively.
34. The rank indicates that the perception of employees of hotel and manufacturing organization is same in clarity of quality goals for the organization and it is highest ranked by them. But perception of employees of hotel's and manufacturing organization is different. Responsiveness to customers, relative importance given by top management to quality as a strategic issue, allocation of adequate resources to quality improvement efforts, relative importance given by top management to quality versus cost, performance evaluation of managers based on quality, relative importance given by top management to quality versus production schedule and relative importance given by top management to conformance to specification are ranked from highest to lowest respectively.
35. There is a positive relationship between differentiation strategy and quality performance, cost leadership strategy and quality performance, cost leadership and differentiation strategy in predicting quality performance in Nepalese enterprises. Results support hypothesis eight, nine and ten and these findings are similar to hypothesis eight and ten of Prajogo (2007).

36. According to the perception of senior executive of BNL, BNTL, UNL, NBBUL, FHL, HDL, and SHL are emphasized on differentiation strategy. Similarly, senior executives of GRUL, SSML, RJML, NLOL, OHL, and TRHL are focused on cost leadership strategy.

7.2 Conclusion

The major conclusion of this study is that the cost leadership strategy has positive and significant impact on the performance of the Nepalese enterprises but the impact of differentiation strategy on the performance seems mixed. The enterprises adopting higher selling, general and administrative expenses in association with higher gross profit margin indicates that they are pursuing differentiation strategy whereas, higher investment on property, plant and equipment along with their existing value indicates that they are following cost leadership strategy. Cost leadership strategy has higher positive impact on financial performance than that of differentiation strategy. Value of Nepalese enterprises on capital market; however, places a positive value on pursuing a differentiation strategy and negative value on cost leadership strategy. Pursuing cost leadership strategy has a positive effect on reducing bankruptcy risk while pursuing differentiation strategy has a negative effect on reducing bankruptcy risk. Cost stickiness of the enterprises pursuing a differentiation strategy is higher than that of following a cost leadership strategy. The study also concludes that survey of the executives opinion also hold the view that the differentiation strategy, combination of both strategies, and cost leadership strategy are positive respectively than that of stuck in the middle to increase the quality performance of products.

7.3 Recommendations

Based on the major findings of this study, the following recommendations are made.

1. High investment on research and development expenses indicates firm is following differentiation strategy in theoretical but it was not separately recorded on in annual audit report. So it is recommended that research and development expenditure should be recorded in separately in annual audit report for analyzing its impact on financial performance through generic strategy of Nepalese enterprises.

2. High investments on advertising and general administration expenses are required to follow differentiation strategy in the context of Nepalese enterprises.
3. Firm earns higher gross profit margin, when firm follows differentiation strategy in Nepalese enterprises.
4. High capital expenditure on property, plant and equipment, higher existing net book value of plant and equipment indicates firm is following cost leadership strategy in the context of Nepalese enterprises.
5. Cost leadership strategy is better than differentiation for increasing market value per share of Nepalese enterprises.
6. Firm focus on mass production, economy of scale and standardize production for implementing cost leadership strategy.
7. Differentiation strategy place a positive value on capital markets but cost leadership strategy will place a negative value in Nepalese enterprises.
8. Higher ratio of advertising expenses to sales and sales revenue place a positive value on capital markets in Nepalese enterprises but higher ratio of capital expenditure on property, plant and equipment to sales place a negative value on capital markets in Nepalese enterprises.
9. Differentiation strategy is more risky in Nepalese enterprises but cost leadership strategy reduces bankruptcy risk.
10. Market capitalization and leverage reduces bankruptcy risk in Nepalese enterprises.
11. High average profit margin as a representation for a differentiation strategy and high average assets turnover ratio as a representation for a cost leadership strategy in Nepalese enterprises.
12. Other thing remaining the same, cost stickiness of firms pursuing a differentiation strategy is higher than that of firms following a cost leadership strategy in Nepalese enterprises.
13. Senior level of manager (department head, company secretary, general manager/managing director/chief executive officer) are convinced for following differentiation strategy but cost leadership strategy better than it to maintain sustainability of financial performance and to reduce bankruptcy risk.
14. Nepalese senior level manager should be focused on to minimize cost per unit of finished goods for minimizing price per unit of finished goods.

15. Cost leadership strategy; therefore, is better than differentiation strategy though differentiation strategy cannot be overlooked in Nepalese enterprises.

Scope for future research

This study envisages following areas of future research.

1. This study has constructed differentiation and cost leadership strategy through four variables which are SG&A, MARGIN, CAPEX and CAPINT. It does not occupy R&D and ASSETMP to construct as well as to measure the impact of differentiation and cost leadership strategy to sustain financial performance of a firm which is essential for Nepalese enterprises.
2. This study has not analyzed impacts of cost leadership and differentiation strategy on abnormal return to measure market perception in capital markets by including above mentioned controlled variables but it is more essential for Nepalese enterprises.
3. This study has not included impacts of productivity on bankruptcy risk. Hence, further research should be emphasized on impact of productivity to reduce bankruptcy risk in Nepalese enterprises.
4. Future research should focus addressing on the three way relationship between productivity, generic strategies and bankruptcy risk in Nepalese enterprises.
5. This study has focused only on strategic positioning and asymmetric cost behavior but it does not examine how managerial optimism or pessimism moderates the relationship between strategic position and cost behavior in Nepalese enterprises.
6. This study has put emphasis on impact of generic strategies in quality performance as a whole. It does not study strategic positioning on quality performance on the basis of specific firm size, specific product/service which is more essential in Nepalese enterprises.

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ANNEXURES

ANNEXURE -1: FINANCIAL INFORMATION

Annex-1.1 Sales Revenue

(Rs'000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 525354 | 535494 | 609654 | 632114 | 614739 | 621827 | 634190 | 746582 | 1002720 | 1588150 | 1852040 | 2370660 |
| BNTL | 424143 | 461490 | 465439 | 431969 | 401320 | 354095 | 484987 | 475109 | 621174 | 845258 | 954009 | 1155473 |
| UNL | 1540992 | 1236052 | 1244727 | 1524901 | 1481560 | 1434942 | 1818528 | 2144589 | 2625827 | 3055071 | 3556662 | 4232469 |
| NBBUL | 87072 | 100607 | 72492 | 164679 | 223359 | 201312 | 336362 | 237785 | 392846 | 582858 | 384404 | 338326 |
| GRUL | 407814 | 381164 | 400990 | 351620 | 341094 | 403018 | 363994 | 305360 | 473469 | 588534 | 611340 | 303462 |
| NKUL | 146358 | 170823 | 115890 | 66677 | 666 | 712 | 0 | 1756 | 145103 | 196051 | 138862 | 162941 |
| FHL | 19694 | 13239 | 24323 | 18614 | 15164 | 29818 | 35620 | 42311 | 43446 | 38551 | 43773 | 48027 |
| SSML | 654663 | 524002 | 536777 | 611381 | 422648 | 641154 | 565046 | 746103 | 533174 | 533362 | 722302 | 1248514 |
| HDL | 88912 | 94865 | 203585 | 314579 | 453599 | 529559 | 656808 | 640994 | 643228 | 1003176 | 1061344 | 1349674 |
| RJML | 295058 | 422387 | 366664 | 382385 | 482444 | 477862 | 654395 | 595882 | 670729 | 1052568 | 1122461 | 1125310 |
| NLOL | 72223 | 136004 | 119151 | 84713 | 118104 | 148752 | 184191 | 167659 | 232,833 | 269439 | 169861 | 282941 |
| OHL | 245821 | 176432 | 174764 | 248679 | 213720 | 277675 | 325850 | 342666 | 406680 | 461785 | 562013 | 659007 |
| SHL | 434720 | 296311 | 300325 | 370533 | 284226 | 414924 | 518815 | 579437 | 706920 | 808940 | 928902 | 1068115 |
| TRHL | 109781 | 146029 | 226597 | 330348 | 295063 | 380084 | 407700 | 470903 | 599037 | 677723 | 831641 | 890189 |

Annex-1.2 Cost of Goods Sold

(Rs'000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 283638 | 306480 | 376263 | 358377 | 357350 | 351080 | 389258 | 455134 | 621894 | 887112 | 1048185 | 1360987 |
| BNTL | 212225 | 237114 | 238590 | 207989 | 191961 | 187716 | 259928 | 250803 | 326514 | 406073 | 445332 | 523618 |
| UNL | 1220827 | 937734 | 843142 | 969109 | 937818 | 940236 | 1281620 | 1343553 | 1685629 | 1790653 | 2233831 | 2667254 |
| NBBUL | 74650 | 87718 | 69596 | 149452 | 202650 | 183328 | 313929 | 217438 | 360765 | 548168 | 335847 | 316223 |
| GRUL | 306834 | 259384 | 290255 | 245150 | 236245 | 291584 | 265322 | 231182 | 317978 | 377480 | 482984 | 253707 |
| NKUL | 136292 | 157132 | 110764 | 66487 | 836 | 1295 | 680 | 3185 | 157747 | 190382 | 145113 | 153227 |
| FHL | 17570 | 15661 | 18632 | 15482 | 16470 | 24000 | 30476 | 29115 | 34851 | 33131 | 38269 | 39989 |
| SSML | 501221 | 410884 | 460258 | 502803 | 330521 | 481654 | 599737 | 646323 | 423197 | 518790 | 730332 | 1209269 |
| HDL | 64633 | 77564 | 150465 | 211287 | 317207 | 365186 | 478037 | 496927 | 478482 | 758280 | 750066 | 975382 |
| RJML | 253565 | 361238 | 315170 | 331406 | 428980 | 444489 | 586886 | 552122 | 629500 | 1011003 | 1057542 | 1027749 |
| NLOL | 53623 | 96507 | 74035 | 55133 | 82982 | 112571 | 133070 | 114326 | 159836 | 169154 | 107875 | 190906 |
| OHL | 44471 | 36037 | 40667 | 51491 | 51378 | 57777 | 63002 | 122198 | 141400 | 160333 | 190843 | 204382 |
| SHL | 79707 | 59534 | 70065 | 79970 | 68506 | 120394 | 142861 | 153933 | 173562 | 198201 | 223355 | 240770 |
| TRHL | 26017 | 28702 | 48451 | 58487 | 49130 | 57689 | 53345 | 63728 | 170131 | 192226 | 234302 | 247734 |

Annex-1.3 Selling, General, and Administrative Expenses

(Rs'000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 111212 | 128323 | 154601 | 168771 | 157197 | 172618 | 207816 | 243537 | 279633 | 342654 | 456191 | 620046 |
| BNTL | 132241 | 153439 | 180194 | 170277 | 171065 | 141507 | 169085 | 185073 | 182559 | 140263 | 310335 | 370621 |
| UNL | 190865 | 211822 | 250160 | 339997 | 280524 | 233979 | 238565 | 358060 | 394771 | 600464 | 623606 | 758673 |
| NBBUL | 5065 | 5078 | 4852 | 5905 | 5774 | 7866 | 8962 | 9769 | 11817 | 13490 | 13565 | 14092 |
| GRUL | 100627 | 100535 | 79971 | 94119 | 88389 | 105442 | 93728 | 91807 | 119540 | 174447 | 161260 | 128191 |
| NKUL | 5125 | 5187 | 5410 | 4642 | 2459 | 2124 | 7757 | 3052 | 3201 | 3150 | 3704 | 4852 |
| FHL | 12205 | 5093 | 5691 | 2152 | 6160 | 11760 | 10570 | 10695 | 11567 | 13227 | 11587 | 17833 |
| SSML | 29897 | 24645 | 24492 | 24641 | 17376 | 22693 | 27114 | 29375 | 27145 | 23558 | 27189 | 31149 |
| HDL | 29671 | 34146 | 51725 | 78350 | 109214 | 134060 | 126755 | 103351 | 131760 | 140687 | 180820 | 213648 |
| RJML | 20349 | 26540 | 26243 | 24088 | 28162 | 31034 | 31082 | 18204 | 16586 | 16588 | 18516 | 25060 |
| NLOL | 15868 | 22859 | 33734 | 24193 | 29056 | 31655 | 38302 | 43777 | 62200 | 84006 | 48218 | 74550 |
| OHL | 116830 | 73291 | 94634 | 105332 | 98418 | 101349 | 115096 | 128357 | 155980 | 174788 | 206761 | 244447 |
| SHL | 306834 | 271424 | 257838 | 304654 | 277089 | 188126 | 228997 | 248776 | 295136 | 325519 | 402462 | 415403 |
| TRHL | 135862 | 141418 | 158142 | 206134 | 173367 | 197172 | 213566 | 258635 | 220299 | 208533 | 324606 | 293711 |

Annex-1.4 Book Value of Plant and Equipment

(Rs '000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 271234 | 261234 | 230313 | 204533 | 179816 | 167416 | 368811 | 344070 | 369988 | 337281 | 405523 | 399071 |
| BNTL | 52361 | 55261 | 53150 | 49247 | 47223 | 48713 | 54497 | 51848 | 61263 | 76585 | 89771 | 88411 |
| UNL | 79258 | 67601 | 49617 | 40384 | 38903 | 64804 | 54827 | 65084 | 53300 | 83100 | 80516 | 89101 |
| NBBUL | 3810 | 3506 | 2824 | 3086 | 3384 | 2707 | 2187 | 1749 | 25120 | 28609 | 55730 | 3355 |
| GRUL | 350727 | 323803 | 289824 | 266631 | 219615 | 235081 | 183153 | 171297 | 170156 | 152735 | 140641 | 127460 |
| NKUL | 6547 | 6377 | 5004 | 5413 | 4066 | 2921 | 1948 | 1121 | 1602 | 1451 | 1536 | 1506 |
| FHL | 110047 | 9535 | 8105 | 6929 | 5901 | 5204 | 4810 | 6637 | 6621 | 6075 | 5748 | 5121 |
| SSML | 719346 | 706707 | 686739 | 690803 | 708867 | 603354 | 532471 | 468301 | 440480 | 379116 | 331192 | 346869 |
| HDL | 308321 | 338713 | 324860 | 309692 | 293556 | 279827 | 267587 | 248653 | 232733 | 284960 | 325121 | 311418 |
| RJML | 137040 | 133145 | 126066 | 127821 | 124226 | 172134 | 207193 | 208377 | 192668 | 183549 | 173202 | 186242 |
| NLOL | 2518 | 2165 | 4864 | 55324 | 6608 | 5723 | 5863 | 5108 | 4242 | 3691 | 3137 | 2666 |
| OHL | 386167 | 364964 | 341021 | 318638 | 294670 | 271274 | 246089 | 230125 | 214544 | 215626 | 190217 | 233075 |
| SHL | 119915 | 108565 | 93125 | 177890 | 154043 | 148735 | 144271 | 129972 | 122266 | 123342 | 140240 | 222778 |
| TRHL | 3023 | 1069987 | 1026717 | 967368 | 896047 | 854066 | 761496 | 712884 | 673774 | 625963 | 564378 | 505598 |

Annex-1.5 Capital Expenditure on Property, Plant, and Equipment

(Rs'000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|---------|----------|
| BNL | 22145 | 23182 | 20987 | 12659 | 40052 | 201129 | 229959 | 88514 | 119480 | 127604 | 200154 | 128479 |
| BNTL | 4831 | 9319 | 57918 | 5688 | 43904 | 15791 | 22516 | 20413 | 71887 | 141336 | 201802 | 135191 |
| UNL | 38078 | 8569 | (1749) | 10086 | 14700 | 38514 | 27616 | 11935 | 16648 | 48779 | 15026 | 15798 |
| NBBUL | 1084 | 927 | 1065 | 910 | 1535 | 255 | 196 | 80 | 5852 | 83584 | (1382) | (105248) |
| GRUL | 14783 | 8377 | 58 | 7175 | 3163 | 4159 | 4257 | 411 | 16335 | 8007 | 5162 | 2079 |
| NKUL | 3974 | 4154 | 1100 | (31126) | 3500 | (3400) | (95) | (149) | 1577 | 210 | 407 | 441 |
| FHL | 325 | 169 | 17 | 303 | 53 | 592 | 686 | 3144 | 1291 | 844 | 738 | 370 |
| SSML | 22208 | 11498 | 7364 | 51399 | 1419 | 1633 | 24833 | 40276 | 29191 | 5800 | 22227 | 70345 |
| HDL | 12201 | 15309 | 13526 | 17174 | 8900 | 26522 | 24057 | 30553 | 37235 | 117677 | 90242 | 28380 |
| RJML | 16535 | 19423 | 7115 | 13232 | 10906 | 110451 | 46624 | 17270 | 11374 | 48229 | 42012 | 16535 |
| NLOL | 671 | 291 | 476 | 889 | 783 | 164 | 1323 | 211 | 77 | 0 | 15 | 67 |
| OHL | 72564 | 8196 | 9151 | 8362 | 9196 | 13710 | 4405 | 43514 | 32575 | 29234 | 198320 | 391871 |
| SHL | 55706 | 48430 | 95637 | 9262 | 4321 | 27421 | 37087 | 25003 | 23916 | 115346 | 122368 | 150377 |
| TRHL | 575023 | 354235 | 67999 | 20775 | 46325 | 47733 | (111111) | 30655 | 10659 | 18189 | 29882 | 34903 |

Annex-1.6 Total Assets

(Rs'000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 1033425 | 1036046 | 1038408 | 886555 | 975264 | 1048353 | 1255758 | 1190149 | 1255744 | 1459814 | 1791300 | 1951598 |
| BNTL | 642325 | 673212 | 654691 | 572213 | 618921 | 418772 | 523642 | 436202 | 607724 | 855952 | 1043933 | 1479997 |
| UNL | 760415 | 571335 | 784880 | 939720 | 1098956 | 967147 | 985254 | 1088048 | 1212177 | 1380138 | 1504525 | 1923820 |
| NBBUL | 98777 | 108454 | 95228 | 99913 | 131005 | 142350 | 217031 | 205104 | 310402 | 388844 | 382171 | 343501 |
| GRUL | 838860 | 812124 | 703154 | 659599 | 622035 | 603951 | 586486 | 563505 | 664221 | 734192 | 682146 | 721696 |
| NKUL | 112469 | 171171 | 163919 | 69964 | 61776 | 56101 | 47729 | 54360 | 63595 | 64852 | 56511 | 109336 |
| FHL | 52763 | 49767 | 56242 | 58583 | 55058 | 55883 | 55175 | 64706 | 66104 | 68919 | 69352 | 78245 |
| SSML | 1049276 | 1058370 | 1132416 | 1066137 | 985628 | 922052 | 1014491 | 845812 | 691458 | 657023 | 845352 | 686088 |
| HDL | 576323 | 553720 | 531684 | 506728 | 558053 | 545835 | 579206 | 572704 | 548517 | 678468 | 679817 | 679323 |
| RJML | 292371 | 311928 | 303041 | 307132 | 325054 | 457552 | 475123 | 486182 | 471027 | 612241 | 586962 | 657359 |
| NLOL | 111833 | 115650 | 143332 | 115107 | 127195 | 145415 | 141449 | 151253 | 175308 | 227447 | 185313 | 235056 |
| OHL | 1328842 | 1282658 | 1249541 | 1240533 | 1185740 | 1177165 | 1154989 | 1160696 | 1173461 | 1187013 | 1390296 | 1747179 |
| SHL | 646689 | 639050 | 715923 | 693110 | 626031 | 635026 | 667051 | 677354 | 727447 | 894160 | 1041364 | 1263740 |
| TRHL | 3114496 | 3427546 | 3420200 | 3350482 | 3221300 | 3210040 | 3024428 | 2926995 | 2910154 | 2883307 | 2753710 | 2676377 |

Annex-1.7 Net Profit After Tax

(Rs'000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|----------|----------|----------|----------|----------|----------|---------|---------|---------|----------|----------|----------|
| BNL | 52355 | 48610 | 19372 | 37800 | 34735 | 24962 | (30308) | (11429) | 20531 | 177502 | 241559 | 279947 |
| BNTL | 42315 | 39141 | 26559 | 19546 | 16278 | (26015) | 49095 | 13818 | 78585 | 133179 | 146995 | 206923 |
| UNL | 68044 | 42606 | 93167 | 140783 | 189199 | 238157 | 263065 | 335122 | 444043 | 576534 | 609885 | 735813 |
| NBBUL | 565 | 937 | (6952) | 2913 | 6765 | 2512 | 3843 | 919 | 7699 | 5201 | 4976 | 5146 |
| GRUL | (105760) | (72713) | (56257) | (76356) | (70893) | (81721) | (74816) | (10896) | (91659) | 13033 | (70993) | (127174) |
| NKUL | 191 | 1169 | (8792) | 14811 | (1778) | (2821) | (10027) | (6460) | (8862) | 6043 | (5823) | (2025) |
| FHL | (10097) | (15093) | (7363) | (4024) | (9036) | (8612) | (7974) | (1041) | (5593) | (10032) | (8596) | (12599) |
| SSML | 27115 | 6796 | (31915) | 8671 | 14986 | (14546) | 199455 | (49736) | (39606) | (132097) | (162473) | (108029) |
| HDL | (99335) | (82005) | (47489) | (38519) | (26212) | (23527) | 2918 | (4291) | (18296) | 37336 | 60036 | 75942 |
| RJML | 1036 | 5337 | 4740 | 7170 | 5011 | 18112 | 6949 | (11584) | (18599) | (15178) | 1058 | 18109 |
| NLOL | (2200) | 6216 | 4239 | 306 | 3059 | 175 | 2360 | 2329 | 4362 | 6170 | 4155 | 6595 |
| OHL | (78281) | (110818) | (120355) | (63731) | (74565) | (27881) | 3648 | 23432 | 14133 | 51383 | 81389 | 111520 |
| SHL | 21627 | (59617) | (37800) | (44437) | (92290) | (18492) | 22846 | 54947 | 97677 | 122822 | 132975 | 178909 |
| TRHL | (52098) | (24091) | (285620) | (185169) | (164359) | (167752) | (91931) | (20141) | 6545 | 78193 | 54853 | 92323 |

Annex-1.8 Cash from Operations

(Rs '000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|----------|----------|---------|----------|---------|----------|----------|---------|---------|---------|---------|---------|
| BNL | 98781 | 68187 | 16355 | 30824 | 28214 | 163366 | 173526 | 111348 | 91418 | 377522 | 240532 | 291985 |
| BNTL | 44778 | 42746 | 46168 | 45006 | 15328 | 22409 | 27563 | 109346 | 137247 | 151047 | 279588 | 339346 |
| UNL | (154035) | 260353 | 290148 | 167076 | 158550 | 206155 | 250608 | 244400 | 649535 | 397436 | 515329 | 523799 |
| NBBUL | (3206) | (3869) | 10715 | 1654 | (12795) | 5778 | (22374) | (29728) | (68997) | 79468 | (85953) | 61658 |
| GRUL | (2452) | (29172) | 76507 | 29333 | 15890 | 18371 | 1418 | (11145) | 79261 | (57414) | 11768 | (14079) |
| NKUL | 26436 | (769) | (1286) | (24028) | 54 | (2600) | 228 | 638 | (34879) | 5977 | (12) | (48650) |
| FHL | 94 | (192) | 145 | 162 | 895 | 292 | 1672 | 3144 | 1291 | 818 | 1241 | 11 |
| SSML | 46179 | 22557 | 310106 | 101233 | 82775 | 42460 | 82157 | 51365 | (18092) | 12742 | 1852 | 34058 |
| HDL | 115721 | (107645) | 41222 | 40439 | 36595 | 80619 | 71109 | 85688 | 100118 | 137338 | 174864 | 97877 |
| RJML | 26473 | 34632 | 12468 | 37717 | 13956 | 76377 | 2802 | 27819 | 22705 | 30122 | 29301 | (38943) |
| NLOL | 55 | 3122 | 55 | 2982 | 3075 | 1251 | 372 | 1809 | 3976 | 10236 | 10783 | (1365) |
| OHL | 16413 | (61600) | (65569) | (32771) | (7766) | 22326 | 47143 | 53067 | 132897 | 153114 | 173527 | 318258 |
| SHL | 70798 | 8892 | (11230) | (1989) | (23110) | 34547 | 38978 | 80276 | 139828 | 177697 | 167973 | 219641 |
| TRHL | 366696 | 178921 | 87326 | (270505) | (776) | (436381) | (349140) | 55236 | 176651 | 178131 | 322059 | 351423 |

Annex-1.10 Market Value Per Share in Rupees

| Orga../FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 700 | 700 | 700 | 554 | 635 | 500 | 500 | 700 | 700 | 700 | 1729 | 1690 |
| BNTL | 710 | 540 | 435 | 450 | 413 | 400 | 400 | 700 | 742 | 728 | 989 | 1000 |
| UNL | 1250 | 1350 | 1130 | 1400 | 1631 | 2500 | 3400 | 4100 | 4250 | 4149 | 4781 | 6300 |
| NBBUL | 100 | 100 | 100 | 63 | 63 | 63 | 63 | 64 | 64 | 64 | 64 | 64 |
| GRUL | 82 | 32 | 21 | 28 | 50 | 39 | 39 | 38 | 38 | 38 | 38 | 38 |
| NKUL | 231 | 231 | 231 | 231 | 231 | 231 | 231 | 231 | 231 | 231 | 231 | 231 |
| FHL | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 |
| SSML | 45 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| HDL | 100 | 100 | 100 | 100 | 100 | 94 | 105 | 100 | 101 | 100 | 100 | 100 |
| RJML | 16 | 16 | 16 | 16 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| NLOL | 580 | 480 | 400 | 350 | 350 | 350 | 350 | 250 | 250 | 250 | 250 | 246 |
| OHL | 49 | 48 | 49 | 42 | 50 | 44 | 86 | 185 | 193 | 150 | 79 | 92 |
| SHL | 140 | 100 | 75 | 65 | 50 | 55 | 126 | 236 | 207 | 229 | 87 | 83 |
| TRHL | 100 | 50 | 44 | 39 | 40 | 43 | 55 | 68 | 78 | 78 | 202 | 230 |

Annex-1.11 Net Worth

(Rs'000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| BNL | 686931 | 695931 | 705559 | 727154 | 761889 | 704570 | 448762 | 482177 | 539816 | 615950 | 739288 | 1006737 |
| BNTL | 374541 | 381282 | 395493 | 384896 | 401174 | 263244 | 209306 | 223124 | 277260 | 344694 | 416374 | 619664 |
| UNL | 342347 | 348125 | 358429 | 396014 | 216933 | 224915 | 234787 | 280481 | 687865 | 830368 | 924661 | 1117261 |
| NBBUL | 20347 | 21285 | 14333 | 17246 | 24011 | 23785 | 25521 | 24333 | 29925 | 29219 | 32088 | 35126 |
| GRUL | 8058 | (64655) | (120912) | (197268) | (268161) | (349882) | (424698) | (516357) | (527254) | (280471) | (351464) | (478638) |
| NKUL | 26029 | 80305 | 71513 | 49080 | 45643 | 42822 | 32795 | 26335 | 11495 | 17538 | 11323 | 8927 |
| FHL | (11474) | (26567) | (33930) | (37954) | (46990) | (55603) | (63577) | (65995) | (70888) | (80920) | (89516) | (102115) |
| SSML | 262080 | 274867 | 242981 | 251053 | 266638 | 252093 | 52637 | (6567) | (46173) | (178269) | (240742) | (448770) |
| HDL | 275352 | 253532 | 209794 | 171275 | 145064 | 121536 | 124454 | 80432 | 71078 | 108415 | 168450 | 244392 |
| RJML | 171599 | 176937 | 181677 | 188847 | 193858 | 175746 | 182694 | 158188 | 139589 | 124411 | 125469 | 143578 |
| NLOL | 37142 | 38600 | 39697 | 40757 | 40772 | 40947 | 42497 | 44826 | 46145 | 52315 | 46987 | 50538 |
| OHL | 324912 | 216351 | 95538 | 31865 | (42640) | (70473) | (66638) | (42147) | (27700) | 23783 | 105193 | 216736 |
| SHL | 424322 | 358556 | 320756 | 273677 | 181387 | 161200 | 175300 | 230700 | 317300 | 420100 | 504381 | 624851 |
| TRHL | 823896 | 823979 | 538361 | 353192 | 188833 | 285533 | 1041609 | 1022026 | 1886547 | 1886547 | 974078 | 1120543 |

Annex-1.13 Advertising Expense

(Rs'000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 22236 | 24768 | 26141 | 18555 | 9888 | 7418 | 11191 | 22773 | 29340 | 24968 | 48872 | 50897 |
| BNTL | 6756 | 8937 | 9607 | 4051 | 6543 | 7999 | 6893 | 9075 | 3046 | 3423 | 11982 | 3945 |
| UNL | 103935 | 125607 | 164325 | 250088 | 203324 | 170533 | 157389 | 251189 | 269979 | 444919 | 432847 | 522812 |
| NBBUL | 175 | 301 | 189 | 237 | 281 | 444 | 515 | 638 | 518 | 563 | 15 | 529 |
| GRUL | 179 | 238 | 751 | 1175 | 91 | 103 | 87 | 36 | 17 | 295 | 240 | 124 |
| NKUL | 184 | 133 | 86 | 120 | 88 | 62 | 68 | 25 | 1 | 15 | 41 | 22 |
| FHL | 3925 | 2503 | 3525 | 590 | 1560 | 6766 | 3619 | 2709 | 1531 | 1674 | 1137 | 1970 |
| SSML | 559 | 495 | 209244 | 276 | 156 | 308 | 394 | 302 | 249 | 181 | 134 | 129 |
| HDL | 2527 | 4905 | 14622 | 25919 | 39414 | 48424 | 50393 | 34013 | 47131 | 47518 | 61979 | 81489 |
| RJML | 74 | 129 | 89 | 56 | 58 | 77 | 86 | 83 | 64 | 85 | 25 | 43 |
| NLOL | 645 | 831 | 1548 | 1132 | 1660 | 1364 | 1716 | 2903 | 17152 | 25785 | 15206 | 21516 |
| OHL | 10618 | 6078 | 3938 | 3635 | 3947 | 4252 | 4103 | 2984 | 4677 | 5471 | 6357 | 6202 |
| SHL | 12711 | 9062 | 7842 | 12318 | 10958 | 10353 | 12897 | 6128 | 5217 | 6902 | 8356 | 11197 |
| TRHL | 3363 | 4367 | 5484 | 10779 | 6467 | 5982 | 5647 | 69327 | 8775 | 7665 | 11129 | 9006 |

Annex-1.14 Working Capital

(Rs '000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|----------|----------|----------|---------|----------|---------|----------|---------|---------|---------|---------|---------|
| BNL | 155610 | 166310 | 211334 | 273809 | 224220 | 160562 | -296177 | -73439 | -97144 | -105824 | -201369 | 57308 |
| BNTL | 133210 | 178310 | 233270 | 245995 | 62345 | 69161 | 1076 | 25 | 26285 | 40712 | -9340 | 171023 |
| UNL | 149507 | 175926 | 163434 | 180539 | 9392 | -184276 | -127797 | -53186 | 283400 | 209202 | 165967 | 487229 |
| NBBUL | 6321 | 8472 | 2196 | 5703 | 12872 | 13977 | 133587 | -46645 | -32371 | -110418 | -65111 | 18040 |
| GRUL | 23611 | -809 | -50319 | -103006 | -154905 | -216867 | -242493 | -311180 | -250616 | -332693 | 61660 | -121742 |
| NKUL | 76021 | 81303 | -6065 | 9859 | 7601 | 8926 | -379 | -6387 | -14534 | -7921 | -23619 | -17130 |
| FHL | 34758 | 77137 | 90281 | 96537 | 102049 | 111486 | 118752 | 130001 | 136992 | 180360 | 158867 | 180360 |
| SSML | -115385 | -107261 | -134099 | -196079 | -253769 | -195941 | -365412 | -351192 | -286324 | -379435 | -460316 | -543860 |
| HDL | 38581 | 27089 | -6470 | -13942 | -25548 | -56165 | -80761 | -110839 | -172428 | -215965 | -257058 | -208884 |
| RJML | 21933 | 22469 | 31668 | 21050 | 33191 | -121869 | -124671 | -140753 | -111365 | -131362 | -107625 | -24766 |
| NLOL | 35607 | 37068 | 37932 | 39014 | 39793 | 39755 | 41648 | 44826 | 31945 | 31319 | 16016 | 20251 |
| OHL | -9370 | -16507 | -25604 | -9711 | -18573 | -97470 | -102330 | -103807 | -99248 | -65423 | 6398 | -82544 |
| SHL | 2014 | 1319 | 2147 | -124584 | -168212 | -173438 | --189863 | -141021 | -62121 | -64741 | -116296 | -101683 |
| TRHL | -1438090 | -2039174 | -1339621 | -894546 | -1149002 | -973681 | -190025 | -314379 | -462456 | -483902 | -573337 | -611045 |

Annex-1.15 Earningbefore Interest and Tax

(Rs'000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 54325 | 58138 | 30059 | 45012 | 44141 | 32292 | -59838 | 51062 | 56653 | 248832 | 295268 | 337169 |
| BNTL | 43862 | 49880 | 33963 | 24801 | 19091 | -25491 | 24820 | 20771 | 103265 | 175219 | 176523 | 254046 |
| UNL | 935444 | 56606 | 124045 | 193783 | 255699 | 304657 | 345565 | 433122 | 563627 | 724182 | 761142 | 909693 |
| NBBUL | 6807 | 7261 | -2446 | 8385 | 13022 | 9078 | 12050 | 9647 | 18282 | 19422 | 22212 | 39656 |
| GRUL | -36281 | -11157 | 2025 | -19266 | -12981 | -17266 | -18884 | -26018 | 45198 | 49829 | -34920 | -89575 |
| NKUL | 191 | 1518 | -8792 | 14811 | -1778 | -2821 | -10027 | -6460 | -11484 | 2096 | -9017 | 6764 |
| FHL | -10097 | -15093 | -7363 | -4024 | -9036 | -8612 | -7974 | --1041 | -5593 | --10032 | -8596 | -12599 |
| SSML | 98942 | 66134 | 23472 | 59578 | 63322 | 12216 | -163583 | -6037 | 2364 | -80267 | -100437 | -53504 |
| HDL | -53439 | -82005 | -47489 | -38519 | -26212 | -23527 | 3210 | 2845 | -15394 | 41698 | 68718 | 111477 |
| RJML | 10232 | 14216 | 13353 | 14035 | 12546 | -24509 | 19951 | 6426 | 2559 | 2230 | 21743 | 46475 |
| NLOL | 1644 | 11382 | 8519 | 3828 | 6376 | 3478 | 9381 | 6985 | 11445 | 16827 | 13938 | 17435 |
| OHL | 20437 | -26138 | -34484 | 20628 | -70660 | 39622 | 67488 | 86713 | 102062 | 117937 | 156404 | 206652 |
| SHL | 31282 | -53571 | -30944 | -29504 | -71992 | 3205 | 42473 | 71448 | 125237 | 170361 | 178799 | 239999 |
| TRHL | 112835 | 66648 | -25546 | -46823 | -25546 | -7919 | 75094 | 58388 | 85369 | 141173 | 98850 | 116134 |

Annex-1.16 Retained Earnings

(Rs '000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 22345 | 9628 | 21595 | 34735 | -57310 | -255814 | 33421 | 46853 | 10786 | 68093 | 125454 | 275404 |
| BNTL | 20180 | 20991 | 13259 | -10597 | 16278 | -137930 | -53938 | 13818 | 54136 | 68567 | 63237 | 204184 |
| UNL | 17405 | 5778 | 10304 | 37585 | -179081 | 7982 | 9872 | 35894 | 444043 | 162219 | 94293 | 192600 |
| NBBUL | 565 | 937 | -6952 | 2913 | 6765 | 827 | 1736 | -1187 | 5591 | 572 | 2869 | 3039 |
| GRUL | -105760 | -72713 | -56257 | -76356 | -70893 | -81721 | -74816 | -91659 | -10896 | 13033 | -70993 | -127174 |
| NKUL | 191 | 1169 | -8792 | 14811 | --1778 | -2821 | -10027 | -6460 | -8862 | 6043 | -5823 | -2025 |
| FHL | -10097 | -15093 | -7363 | -4024 | -9036 | -8612 | -7974 | --1041 | -5593 | --10032 | -8596 | -12599 |
| SSML | 27115 | 6796 | -31915 | 8671 | 14986 | -14546 | -199455 | -50796 | -39606 | -132097 | -162473 | -108029 |
| HDL | -83795 | -82005 | -47489 | -38519 | -26212 | -23527 | 2918 | -4291 | -18296 | 37336 | 60036 | 75942 |
| RJML | 941 | 5337 | 474 | 7170 | 5011 | -18112 | 6949 | -11584 | -18599 | -15178 | 1058 | 18109 |
| NLOL | -2200 | 3172 | 1195 | 306 | 15 | 175 | 2360 | 2329 | 4362 | 6170 | 4155 | 6595 |
| OHL | -78281 | -110818 | -120355 | -73731 | -74565 | -27881 | 3648 | 23432 | 14133 | 51383 | 81389 | 111520 |
| SHL | 15104 | -87506 | -37800 | -47079 | -92290 | -20262 | 14149 | 55350 | 77901 | 83750 | 49734 | 90721 |
| TRHL | 0 | 0 | -285620 | -185169 | -164359 | -167752 | -42038 | -19583 | -172428 | 75484 | 48996 | 92323 |

Annex-1.17 Long Term Debt

(Rs '000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 0 | 0 | 0 | 0 | 0 | 72000 | 0 | 200000 | 133332 | 66666 | 0 | 0 |
| BNTL | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| UNL | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NBBUL | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| GRUL | 556882 | 563388 | 532003 | 527097 | 510551 | 511836 | 516350 | 522477 | 588466 | 572358 | 567358 | 617358 |
| NKUL | 76950 | 82897 | 1847 | 2447 | 1795 | 1143 | 653 | 0 | 1173 | 948 | 707 | 432 |
| FHL | 3117 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SSML | 498147 | 481051 | 464520 | 421060 | 336019 | 294322 | 248257 | 263860 | 318507 | 291959 | 195214 | 165394 |
| HDL | 232573 | 207360 | 206116 | 226759 | 222575 | 214208 | 182375 | 148468 | 98446 | 100728 | 45466 | 2126 |
| RJML | 82753 | 76949 | 76623 | 188847 | 63833 | 23282 | 41527 | 30187 | 61597 | 82260 | 96920 | 178360 |
| NLOL | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OHL | 894594 | 962623 | 1039947 | 1084104 | 1034521 | 1032527 | 1480334 | 1450378 | 893589 | 838850 | 965126 | 1054281 |
| SHL | 14088 | 48838 | 132108 | 140450 | 144250 | 143750 | 109000 | 95439 | 80935 | 60067 | 12653 | 8978 |
| TRHL | 787890 | 538959 | 1486778 | 2030935 | 1887790 | 1805989 | 1436768 | 1442069 | 1237561 | 1048725 | 822427 | 551547 |

Annex-1.18 Short Term Debt

(Rs '000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 51373 | 54475 | 57907 | 57399 | 65212 | 54421 | 151851 | 153829 | 22823 | 71817 | 170079 | 106318 |
| BNTL | 52325 | 88321 | 86461 | 79531 | 92081 | 67176 | 76145 | 81226 | 147544 | 185279 | 225654 | 291799 |
| UNL | 145082 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NBBUL | 50054 | 54639 | 45898 | 48204 | 60992 | 56672 | 102002 | 112110 | 196392 | 240358 | 293379 | 255790 |
| GRUL | 108500 | 108500 | 120000 | 136500 | 136500 | 136500 | 140024 | 150996 | 136500 | 176157 | 176500 | 204253 |
| NKUL | 81531 | 81531 | 59736 | 15328 | 12388 | 10933 | 10933 | 1090 | 48276 | 43883 | 42294 | 96543 |
| FHL | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 373 |
| SSML | 205157 | 191509 | 181535 | 192325 | 164706 | 259917 | 253087 | 251088 | 325091 | 337784 | 321539 | 317518 |
| HDL | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 34126 | 90540 | 47420 |
| RJML | 5 | 5 | 5 | 5 | 5 | 117042 | 127428 | 140058 | 116805 | 84836 | 128855 | 140576 |
| NLOL | 66259 | 24223 | 41760 | 35380 | 38360 | 58745 | 47245 | 43586 | 58822 | 60809 | 46348 | 72601 |
| OHL | 7772 | 6584 | 14061 | 17849 | 30038 | 33423 | 63457 | 62497 | 76180 | 66586 | 67597 | 69908 |
| SHL | 30202 | 46916 | 78314 | 78569 | 97421 | 66354 | 70515 | 54879 | 22075 | 18325 | 22114 | 26587 |
| TRHL | 254834 | 279481 | 303389 | 40884 | 37820 | 5822 | 729 | 783 | 313985 | 332054 | 266587 | 287339 |

Annex-1.19 Closing Balance of Cash and Equivalent to Cash

(Rs '000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 13235 | 29456 | 5335 | 13755 | 1917 | 35926 | | 2428 | 3658 | 28780 | 14426 | 47955 |
| BNTL | 16234 | 46015 | 22165 | 49482 | 14856 | 21474 | 26521 | 20327 | 38094 | 26281 | 45229 | 183817 |
| UNL | 6272 | 62335 | 317404 | 391532 | 443311 | 59022 | 101602 | 98989 | 382049 | 163266 | 57038 | 198825 |
| NBBUL | 834 | 658 | 1567 | 4617 | 3074 | 4276 | 25988 | 4609 | 11942 | 49687 | 16031 | 35780 |
| GRUL | 64904 | 33861 | 32144 | 21349 | 25791 | 26404 | 17785 | 28874 | 117069 | 79900 | 75918 | 131036 |
| NKUL | 3995 | 5019 | 3114 | 812 | 209 | 357 | 190 | 324 | 2419 | 3567 | 1090 | 3323 |
| FHL | 55 | 79 | 207 | 66 | 908 | 608 | 1594 | 1061 | 222 | 196 | 74 | 88 |
| SSML | 7323 | 7277 | 1751 | 8125 | 4455 | 3585 | 14845 | 36537 | 8157 | 2271 | 9304 | 13198 |
| HDL | 574 | 670 | 1529 | 1503 | 672 | 13544 | 3253 | 2122 | 2186 | 3772 | 4760 | 3739 |
| RJML | 579 | 3864 | 810 | 1018 | 1156 | 1034 | 1916 | 1125 | 1116 | 3672 | 1099 | 1584 |
| NLOL | 1809 | 1320 | 2294 | 703 | 2913 | 3179 | 2015 | 3613 | 112032 | 132608 | 4473 | 2846 |
| OHL | 7701 | 8151 | 10825 | 13908 | 7858 | 17914 | 31226 | 9862 | 12162 | 23986 | 19881 | 19930 |
| SHL | 9119 | 14472 | 22273 | 19619 | 14840 | 24682 | 10962 | 14296 | 41408 | 65764 | 47105 | 68446 |
| TRHL | 9787 | 8625 | 13730 | 8708 | 8485 | 33694 | 80149 | 30829 | 33255 | 41554 | 62533 | 73168 |

Annex-1.20 Age in Years

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 |
| BNTL | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 |
| UNL | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| NBBUL | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| GRUL | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| NKUL | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 |
| FHL | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| SSML | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| HDL | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| RJML | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 |
| NLOL | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| OHL | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| SHL | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 |
| TRHL | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |

Annex-1.21 Interest Expense

(Rs '000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| BNL | 534 | 663 | 284 | 4 | 265 | 1329 | 8875 | 20790 | 26193 | 20393 | 15228 | 2389 |
| BNTL | 323 | 235 | 331 | 10 | 219 | 524 | 19 | 104 | 321 | 322 | 712 | 136 |
| UNL | 14212 | 12614 | 2602 | 1787 | 1765 | 1790 | 1059 | 129 | 118 | 1768 | 106 | 107 |
| NBBUL | 5995 | 5925 | 4506 | 5145 | 5320 | 5822 | 6864 | 6035 | 7541 | 12542 | 16547 | 31775 |
| GRUL | 69955 | 61556 | 58282 | 57089 | 57913 | 64455 | 55932 | 57641 | 56078 | 36796 | 36074 | 37599 |
| NKUL | 8985 | 9277 | 7187 | 3955 | 1495 | 1266 | 1152 | 1160 | 1363 | 3231 | 1817 | 2650 |
| FHL | 5409 | 7516 | 7154 | 4916 | 1977 | 2599 | 2447 | 3442 | 2529 | 2093 | 2410 | 2712 |
| SSML | 67581 | 58611 | 55761 | 50113 | 46547 | 36430 | 36813 | 31265 | 43802 | 54756 | 62706 | 64135 |
| HDL | 30356 | 40756 | 33394 | 31814 | 28364 | 27442 | 25628 | 21558 | 21740 | 20357 | 28372 | 27178 |
| RJML | 10884 | 8128 | 8139 | 6865 | 7535 | 6397 | 13001 | 14975 | 15292 | 17408 | 20685 | 28705 |
| NLOL | 3844 | 3688 | 3014 | 3432 | 2416 | 3252 | 6326 | 3970 | 5642 | 8600 | 8667 | 9070 |
| OHL | 98718 | 84680 | 85871 | 84359 | 67499 | 67503 | 63840 | 63281 | 51562 | 47845 | 56825 | 59603 |
| SHL | 3997 | 6046 | 6856 | 14933 | 20298 | 21697 | 19627 | 17355 | 12847 | 8789 | 4242 | 5671 |
| TRHL | 203575 | 178257 | 193718 | 138346 | 138813 | 159833 | 166467 | 78529 | 70303 | 56949 | 44233 | 25476 |

Annex-1.23 Value of Preference Shares

(Rs '000)

| Orga./FY | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| GRUL | 148650 | 148650 | 148650 | 148650 | 148650 | 148650 | 148650 | 148650 | 148650 | 148650 | 148650 | 148650 |
| TRHL | 80000 | 80000 | 80000 | 80000 | 80000 | 344453 | 212175 | 212175 | 212175 | 212175 | 212175 | 212175 |

ANNEXURE 2

ITEMS-TOTAL STATISTICS

| Particulars | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Cronbach's Alpha if Item Deleted |
|---|-----------------------------------|---------------------------------------|---|---|
| Emphasis on price cutting and minimization of expenditures is our very important strategy. | 28.45 | 48.759 | 0.207 | 0.879 |
| Cost centers and fixing standard costs by analyzing variances for cost control is used frequently throughout the firm instead of only rarely or for a small part of operations. | 28.34 | 47.128 | 0.359 | 0.866 |
| Development and introduction of major and frequent product innovations is our primary strategy. | 28.43 | 43.031 | 0.544 | 0.851 |
| Our company always attempts to be ahead of competitors in product novelty or speed of innovation instead of following competitors in introducing new products or services | 28.36 | 42.37 | 0.683 | 0.839 |
| We are growth, innovation, and development oriented rather than favoring the tried and true market. | 28.37 | 40.176 | 0.662 | 0.84 |
| The performance of our product is | 28.03 | 38.205 | 0.789 | 0.825 |
| The reliability of our products is | 28.01 | 41.716 | 0.718 | 0.835 |
| The durability of our products is | 28.08 | 40.523 | 0.674 | 0.838 |
| The conformance to specification of our products is | 28 | 41.706 | 0.667 | 0.839 |

ANNEXURE 3

COMPANY PROFILE

1. Bottlers Nepal Limited

A private company established in 1973 under the Company Act, 1974 which was later changed into a public company in 1984. It has a subsidiary company, Bottlers Nepal (Terai) limited in Chitwan district since 1993. Its main objective is to manufacture bottle for soft drinks like Coke, Fanta, Sprite, etc. The installed capacity of the plant is 220 Bottles per minute.

2. Bottlers Nepal (Terai) Limited

This subsidiary company of Bottlers Nepal Ltd. was established in 1986 under the Company Act 1964. Its objective is also to produce bottles for soft drinks like Coke, Fanta, Sprite, etc. It is situated in Chitwan and is under the management of F&N Coca Cola Pvt. Ltd., Singapore since 1993. The installed capacity of the plant is 350 bottles per minute.

3. Fleur Himalayan Limited

Fleur Himalayan Ltd. is the leading Pharmaceutical Company in Nepal. It was established in 1996. It had been founded to pioneer the efforts in popularizing herbal resources and traditional medicines and hygienic products by blending these natural resources and traditional knowledge with modern technology. Their aim is to utilize these natural resources of herbs on a renewable basis. Its factory is located in Jeetpur, Birgunj. Its registered office is in Birgunj as well. Its contact office is in Pulchowk, Lalitpur.

4. Gorakhkali Rubber Udhyog Limited

With the main objective of manufacturing tire and tube for various types of trucks, buses, cars, jeeps, motorcycles and other vehicles and sell them in and out of the country, this company was established in 1984 under the Company Act 1964. The company was incorporated as a joint sector company. Nepal Oil Corporation, National Trading Limited; NIDC and Salt Trading Corporation are the main promoters and, is

managed by Salt Trading Corporation. Asian Development Bank is also holding 13% equity in the company.

5. Himalayan Distillery Limited

Himalyan Distillery is the leading producer of liquor products in the nation. It was established in 1999. Its registered office is in LipaniBirta Village of Parsa District. Its contact office is situated in Jawlakhel, Lalitpur. Its leading products are Royal Stag, Himalayan Aaila, Red Russian and Blenders' Pride.

6. Nepal Bitumin and Barrel Udhyog Limited

This company was established by Nepal Oil Corporation Limited in 1984 which has been taken over by Panchakanya Group which is a leading industrial and trading house of Nepal. It produces barrels and drums and containers. The plant is capable of producing barrels of different thickness and dimensions suitable for packing liquid and semi liquid products. They are manufactured by using quality cold rolled sheets and are painted in attractive colors to meet customer requirements. Its automatic filling plant equipped with photo censored device and has efficient and accurate filling capacity. It is the only industry in the country to supply bitumen with a test certificate. It can also arrange site delivery on request.

7. Nepal Lube Oil Limited

A company established by Chaudhary group, a leading business group of Nepal in 1984. It was listed in 1986 in Nepal Stock Exchange Ltd. for the transaction of its securities. Its corporate office is located at Chaudhary Tower, Lalitpur and its factory is in Amlekhgunj, Bara. A gulf lubricant is the main product of this organization.

8. Raghupati Jute Mills Limited

This is a public company which was listed in Nepal Stock Exchange in 1988. Its head office is at Biratnagar, Golcha House in Biratnagar and its factory is located at Mills area, in Rani (Biratnagar). It has been promoted by renounced business group of Nepal, GolchhaGroup. The aim of this company is to produce jute products byutilizing the locally produced raw materials.

9. Sri Ram Sugar Mills Limited

This company was established in 1992 and it is also listed in Nepal Stock Exchange in 1999. Its factory is situated in Mahammadpur, Rautahat. This company has been promoted by Golchha Group, a renowned business group of Nepal. Its head office is located at Golchha House, Gabahal, Kathmandu. The aim of this company is to produce quality sugar by utilizing the sugar cane which is locally produced.

10. Unilever Nepal Limited

Unilever Nepal Limited was established in 1994 as a joint venture. The main objective of this company was to establish a factory to manufacture soaps, detergents, cosmetics, toiletries, oleaginous, saponaceous, unguents and other chemicals under the brand name of Hindustan Lever Limited. Hindustan Lever Limited has invested Rs. 73.7 million i.e. 80% ownership. It is the first joint venture of Hindustan Lever Limited outside India. It is the largest fast moving company which dominates home and personal care products. It has been successful in spreading its brands across 20 distinct consumer categories and has touched the lives of two out of three Nepalese.

11. Hyatt Regency Hotel Limited

Hyatt Regency Kathmandu is a luxury five star city resort hotel situated 10 Km from the city center of Kathmandu, Nepal, on the Road of Boudhanath, Stupa, the holiest of Tibetan Buddhist Shrines outside Tibet. It was established in 1994. The hotel is 4 Km from Tribhuvan International Airport and is very close to the business district and shopping areas.

12. Radisson Hotel Limited

An international standard hotel in a modern design, with eight floors providing dramatic views of the surrounding mountains was established in 1996. This hotel is located in Lazimpat and is situated in the heart of the city adjacent to the Royal Place and just is minutes away from all the attractions, including the exciting Thamel district which remains dotted with the city's restaurants.

13. Soaltee Crown Plaza Hotel Limited

Soaltee Crowne Plaza, Kathmandu is considered as a legendary landmark within the Kathmandu cityscape and is also the premier hotel of the nation. It was established in 1973. It is spread over 11 acres of space and is surrounded by manicured gardens and with views of the mountain ranges. The Soaltee Crowne Plaza Offers a resort atmosphere for both business and leisure travellers.

ANNEXURE 4
SURVEY-QUESTIONNAIRE

Dear Sir/Madam

I am in the process of conducting Ph.D. study from Faculty of Management, Tribhuvan University, Nepal. The title of my study/research is “Generic Strategies and Performance of Nepalese Enterprises”. I would like to kindly request you to help me in completing this study/research by providing your valuable support in giving your opinion in the following questionnaire. I would be very obliged if you would provide this as soon as possible. I assure you that all the information will be kept completely confidential and will be used only for research purposes.

RESPONDENT’S PROFILE

Name (optional):

Organization:

Qualification..... Experience (Year).....

Designation: Gender.....

SECTION A: COST LEADERSHIP STRATEGY

(Firms adopting a cost leadership strategy aim to increase market share based on creating a low-cost position relative to their peers. Cost leadership may be achieved through large volume manufacturing utilizing economies of scale, process improvements, cost minimization, total quality management, just-in-time manufacturing, benchmarking, overhead control, etc.)

- 1) Is there managerial attention to cost control in your organization?
(Please tick-mark on appropriate box)
a) Yes [____] b) No [____] c) No Idea [____]
- 2) Does your organization focus on mass production through economy of scale?
(Please tick-mark on appropriate box)
a) Yes [____] b) No [____] c) No Idea [____]
- 3) Are you satisfied in providing product/service at lower price in comparison to competitors? (Please tick-mark on appropriate box)
a) Yes [____] b) No [____] c) No Idea [____]

- 4) Does your organization have standardized production process?
(Please tick-mark on appropriate box)
- a) Yes [____] b) No [____] c) No Idea [____]
- 5) Is cost leadership strategy better than differentiation to coverage of wider market? (Please tick-mark on appropriate box)
- a) Yes [____] b) No [____] c) No Idea [____]
- 6) Is cost leadership strategy easily imitable?
(Please tick-mark on appropriate box)
- a) Yes [____] b) No [____] c) No Idea [____]
- 7) In your opinion, which factor is more responsible for taking strategic decision?
(Please rank 1 for the most important factor, 2 for more important, 3 for important, 4 for low important and 5 for least important factor and so on.....)
- a) Minimizing sales promotion expenses [____]
- b) Following/pursuing cost advantages in raw material purchases [____]
- c) Following/decreasing the number of product features to reduce cost [____]
- d) Controlling overhead and variable costs tightly [____]
- e) Following/optimum utilization of existing resources [____]
- f) Minimizing costs related to channels of distribution [____]
- g) Technological advancement to improve production process [____]
- h) Emphasize on low price than customer service [____]
- 8) Please rate the extent to which your company focuses on the following in comparison to your major competitors by circling a number between 1 and 5 for each item.

| Q.N. | Questions | Much Lower Much Higher | | | | |
|------|---|---------------------------|---|---|---|---|
| I | Emphasis on price cutting and minimization of expenditures is our very important strategy. | 1 | 2 | 3 | 4 | 5 |
| II | Cost centers and fixing standard costs by analyzing variances for cost control is used frequently throughout the firm instead of only rarely or for a small part of operations. | 1 | 2 | 3 | 4 | 5 |

SECTION B: DIFFERENTIATION STRATEGY

(Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support and service.)

- 9) Is your organization focused on superior product than competitors?
(Please tick-mark on appropriate box)
- a) Yes [____] b) No [____] c) No Idea [____]
- 10) Does your organization incur more expenses on research and development than competitors? (Please tick-mark on appropriate box)
- a) Yes [____] b) No [____] c) No Idea [____]
- 11) Are you satisfied with providing the new innovative products/services to the customers? (Please tick-mark on appropriate box)
- a) Yes [____] b) No [____] c) No Idea [____]
- 12) Does your organization focus on strong brand identification?
(Please tick-mark on appropriate box)
- a) Yes [____] b) No [____] c) No Idea [____]
- 13) Is differentiation strategy better than cost leadership to coverage of wider market? (Please tick-mark on appropriate box)
- a) Yes [____] b) No [____] c) No Idea [____]
- 14) Is differentiation strategy more expensive?
(Please tick-mark on appropriate box)
- a) Yes [____] b) No [____] c) No Idea [____]
- 15) In your opinion, which factor is more responsible for taking strategic decisions?
(Please rank 1 for the most important factor, 2 for more important, 3 for important, 4 for low important and 5 for least important factor and so on.....)
- a) Gaining competitive advantage through superior products [____]
- b) Creating superior customer value through service quality [____]
- c) Building a brand image of product/service [____]
- d) Having cooperative and supportive channels of distribution [____]
- e) Developing customer-specific products [____]
- f) Emphasizing advertisement and promotion [____]
- g) Developing innovative marketing techniques [____]
- h) Developing innovative products [____]

16) Please rate the extent to which your company focuses on the following in comparison to your major competitors by circling a number between 1 and 5 for each item.

| Q.N. | Questions | Much Lower Much Higher | | | | |
|------|---|---------------------------|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| I | Development and introduction of major and frequent product innovations is our primary strategy. | | | | | |
| II | Our company always attempts to be ahead of competitors in product novelty or speed of innovation instead of following competitors in introducing new products or services | | | | | |
| III | We are growth, innovation, and development oriented rather than favoring the triedand true market. | | | | | |

SECTION C: PRODUCT/SERVICE QUALITY

- 17) In your opinion, top management commitment to quality is.....?
(Please rank 1 for the most important factor, 2 for more important, 3 for important, 4 for low important and 5 for least important factor and so on.....)
- a) Clarity of quality goals for the organization [___]
 - b) Relative importance given by top management to quality as a strategic issue [___]
 - c) Relative importance given by top management to quality versus costs [___]
 - d) Relative importance given by top management to quality versus production schedule [___]
 - e) Allocation of adequate resources to quality improvement efforts [___]
 - f) Performance evaluation of managers based on quality [___]
 - g) Responsiveness to customers [___]
 - h) Relative importance given by top management to conformance to specification [___]

18) Do the products/services qualities meet the customer demand?

(Please tick-mark on appropriate box)

a) Yes [____] b) No [____] c) No Idea [____]

19) Have your organization reduced consumer complaints in comparison to previous five years? *(Please tick-mark on appropriate box)*

a) Yes [____] b) No [____] c) No Idea [____]

20) Have your organization's level of defects been in decreasing trend in product/services in comparison to previous five years?

(Please tick-mark on appropriate box)

a) Yes [____] b) No [____] c) No Idea [____]

21) Are your employees satisfied (in terms of job security, remuneration, future career, etc.) to provide quality product/service to consumers?

(Please tick-mark on appropriate box)

a) Yes [____] b) No [____] c) No Idea [____]

22) Are you satisfied with your product knowledge to sales support?

(Please tick-mark on appropriate box)

a) Yes [____] b) No [____] c) No Idea [____]

23) Are you satisfied with your organizational product/service quality?

(Please tick-mark on appropriate box).

a) Yes [____] b) No [____] c) No Idea [____]

24) Are you satisfied at the time of giving customer service?

(Please tick-mark on appropriate box)

a) Yes [____] b) No [____] c) No Idea [____]

25) Please rate the extent to which your company focuses on the following in comparison to your major competitors by circling a number between 1 and 5 for each item.

| Q.N. | Questions | Much Lower Much Higher | | | | |
|------|---|---------------------------|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| I | The performance of our product is | 1 | 2 | 3 | 4 | 5 |
| II | The reliability of our products is | 1 | 2 | 3 | 4 | 5 |
| III | The durability of our products is | 1 | 2 | 3 | 4 | 5 |
| IV | The conformance to specification of our products is | 1 | 2 | 3 | 4 | 5 |

Section D: Measurement Scales for Business-level Strategy

26) Who plays the vital role on strategic decision?

(Please tick-mark on appropriate box)

- a) Board members
- b) Chairman
- c) Chief executive officer
- d) Managers
- e) If others, please specify

27) How do you rank the following factors which play vital role in making purchase decision of consumers?

(Please rank 1 for the most important factor, 2 for more important, 3 for important, 4 for low important and 5 for least important factor.)

- a) Price
- b) Quality
- c) Brand
- d) Packaging
- e) If others, please specify

28) Please consider the following factors affecting organizational decision for determining price, and rank in order of their importance.

(Please rank 1 for the most important factor, 2 for more important, 3 for important, 4 for low important and 5 for least important factor.)

- a) Economic factor
- b) Socio- cultural factor
- c) Psychological factor
- d) Demographic factor
- e) If others please specify

29) What is your pricing method?

(Please tick-mark on appropriate box)

- a) Competitive
- b) Premium
- c) Extra premium
- d) Lower

- e) Situational
- f) If others please specify

30) What is your major marketing strategic decision?

(Please tick-mark on appropriate box)

- a) To minimize cost per unit of existing product or service
- b) To add additional attributes in existing product or service
- c) To search new product or service
- d) If others please specify

31) Which major factor affects on consumer decision?

(Please tick-mark on appropriate box)

- a) Quality
- b) Brand
- c) Price
- d) Image of the producer/seller
- e) If others please specify

32) What major feed-back do you get from the consumers?

(Please tick-mark on appropriate box)

- a) Price
- b) Quality
- c) Credit
- d) Service
- e) If others please specify

33) In your opinion, which factor is more responsible for taking marketing decision?

(Please rank 1 for the most important factor, 2 for more important, 3 for important, 4 for low important and 5 for least important.)

- a) Obtaining new customers through lower price than competitors
- b) Obtaining new customers through premium product
- c) Obtaining new customers through fulfill requirement of customers
- d) If others please specify

34) How frequently do you change your strategic decision?

(Please tick-mark on appropriate box)

- a) 1 year
- b) 2 years
- c) 3-5 years
- d) More than 5 years
- e) If others please specify

Thanking for your prompt support.

Sincerely yours

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