ISSN 2348-3156 (Print)
International Journal of Social Science and Humanities Research ISSN 2348-3164 (online)
Vol. 8, Issue 3, pp: (329-334), Month: July - September 2020, Available at: www.researchpublish.com

HOW INDUSTRY STRUCTURE AND STRATEGY AFFECT FIRM CHARACTERISTICS AND PERFORMANCE OF LAW FIRMS: KENYAN PERSPECTIVE

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Abstract: **The study conceptualized a relationship between firm characteristics and performance of law firms in Kenya and the role played by industry structure and strategy in the relationship. Firm characteristics have been posited to influence performance. However, there is observed lack of consensus with regard to this position, hence the need for more empirical explanation. The role of industry structure and strategy in the relationship between firm characteristics and performance has not received conclusive empirical backing. The study was contextualized in law firms in Kenya in which these variables have not been empirically tested. The study was guided by resource based theory, the institutional theory and industrial organizational economics theory. Through a cross-sectional descriptive survey, data was obtained using a semi-structured questionnaire. The questionnaire was administered to a sample of 379 law firms spread across the country. Hypothesis formulated was tested using multivariate regression analysis. The findings show that industry structure and strategy were both found to have statistically significant moderating and intervening effect respectively on the relationship between firm characteristics and performance of law firms in Kenya. The study contributes to knowledge in the field of strategic management by using the findings of this study to monitor the crucial performance drivers in their law firms**

Keywords: **Firm characteristics, Industry Structure, Firm Strategy, Firm Performance, Law firms in Kenya.**

1. INTRODUCTION

Organizations in a competitive environment work to outwit, outsmart, outmaneuver as well as outperform their rivals (Lefort, McMurray & Tesvic, 2015). This means an organization which sets out unique features, characteristics, patterns and processes may outperform others. Firms' characteristics influence on organizational performance may be subject to the industry in which the organization operates (Kamasak, 2011; Abubakar, Sulaiman & Haruna, 2018).

Kamasak (2011) argues that, choice of strategy may be made as a result of specific firm characteristics and this would eventually influence organizational performance. Industry structure has a strong influence in determining the competitive rules of the game as well as strategies potentially available to the firm (Coelho, Aguiar & Lopes, 2011). The combined effect of firm characteristics, strategy and industry structure on organizational performance is the main focus of this study.

The competitive environment for law firms globally has been in a state of flux in recent years largely informed by the choice of strategy, partner versus firm interests as well as firm size in terms of the number of lawyers (Henderson, 2014). In Kenya, the legal profession has seen an increase in law firms in the recent past (LSK, 2015). The law firms exhibit different characteristics such as shared values, norms, systems and structures which are likely to have an influence on their performance. Further, the legal profession industry has been rife with stiff competition. This has necessitated the continued crafting of strategies to enable each of them survive or thrive (LSK, 2015).

2. STATEMENT OF THE PROBLEM

Strategic management studies have ascertained a strong positive link between firm characteristics and firm performance (Abubakar, Sulaiman & Haruna, 2018). Firms need effective characteristics to enable them overcome the competitive challenges they experience in the industry in order to realize superior performance (Badriyah, Sari & Basri, 2015). Lefort et al, (2015) affirm that firm characteristics provide a basis of how effective strategy is formulated and adopted leading to improved performance. However, Njeru (2013) established lack of direct relationship between firm characteristics and performance. The industry in which an organization operates has also been found to determine the choice of strategy and subsequently influence performance (Ogbo, Chibueze, Christopher & Anthony, 2015). However, debate that firm specific characteristics have an influence on organizational performance than the industry in which the firms compete is unresolved which leads to the current study to establish the role of industry structure and strategy in the relationship between firm characteristics and performance.

Law firms in Kenya operate in the legal profession which is a service industry constituted as a sole proprietorship or partnership. This industry is guided by rules and regulations that inform their conduct. However, different firms which can be pure partnership or limited partnership are characterized by different attributes including size, ownership structure, age and resources. There is variation in organizational performance across the industry. While some law firms have been performing well, others have found it difficult to operate in the industry leading to their dissolution and in some cases debarment (LSK, 2015). The law firms are faced with a myriad of challenges, key among them are the emergence and the entry of foreign law firms necessitating adoption of strategic management practices within the industry (Brock, Yaffe & Dembovsky, 2006). There is evidence of crafting and implementing of strategies such as mergers and acquisitions, outsourcing, diversification and marketing strategies that have also been employed by various law firms.

The legal profession in Kenya continues to grow and the industry faces a myriad of managerial challenges. However, very little strategic management research is documented in the industry. Additionally, strategy has been found to have a positive influence on organizational performance (Ogollah, Bolo & Ogutu, 2011). According to Porter, (1998) the industry in which an organization operates has a bearing on the performance of that organization. Further, the industry in which organizations operate have been posited to influence the strategy they choose and eventually impact on their performance (Galbreath & Galvin, 2008; Hitt, Ireland & Hoskisson, 2011). However, the debate on the influence of firm characteristics on performance is inconclusive. Similarly, the moderating role of industry structure on the relationship between firm characteristics and performance is yet to receive much empirical attention. Moreover, the combined influence of firm characteristics, industry structure and organizational strategy on performance still requires empirical strength. These are the gaps that this study sought to address by answering the question as to what is the influence of industry structure and strategy on the relationship between firm characteristics and organizational performance of Law firms in Kenya.

3. OBJECTIVE OF THE STUDY

The general aim of the research was to establish how industry structure and firm strategy affect the relationship between firm characteristics and performance of law firms in Kenya.

Research Hypotheses

Ho_4: There is no statistically significant joint effect of firm characteristics, industry structure and firm strategy on the performance of law firms in Kenya.

4. LITERATURE REVIEW

There are several theories that guide the conceptualization of this study. They include; the resource based theory (Penrose, 1959), the institutional theory (Zucker, 1987; North, 1992) and industrial organizational economics theory (Bain, 1951). The resource based theory is the anchoring theory of the study. The theory's key postulation is that organizations with a unique bundle of resources that exhibit particular strategic characteristics achieve sustainable competitive advantage, hence sustained performance.

The theory links with institutional theory to concretize the influence of an organization's internal characteristics which can enhance or prohibit an organization from achieving its performance goals. Critical in this linkage is the industrial organization economics theory which depicts performance as an outcome that is contingent upon the strategic choices made by an organization given particular industry and overall business environment conditions. These three theories jointly provide anchorage to performance implications of the linkages among firm characteristics, industry structure and strategy.

The quest to understand the determinants of performance has created a bifurcated view. On one side of the debate are the structural characteristics of industries. On the other side of the debate are firm-specific resources. However, in recent years, the nature of competition and the shifting of economic conditions have led to increased challenges of the assumptions upon which industry structure theories have been built. In today's business environment, arguments suggest that structural characteristics of industries are becoming less relevant determinants of performance while firm resources are becoming the basis upon which firms compete (Hajipour, Talari & Shahin, 2011).

Industry structure was thought to be the main determinant of both a firm's strategy and its performance (Kariuki, 2015). The findings of later studies, however, demonstrate that industry characteristics alone cannot explain a large variance in firm performance. These findings lead to the query why some firms within the same industry perform better than others (Hitt et al., 2011). Stimulated by research on firm resources (Penrose, 1959) and competitive strategy (Porter, 1980), a multitude of studies have analyzed the impact of industry structure versus firm resources (Shanmin & Xiaochun, 2009; Kamasak, 2011). Industry structure can therefore be managed when the firm is able to organize its firm characteristics to achieve its desired objectives.

5. RESEARCH METHODOLOGY

The study was a descriptive cross sectional survey. Descriptive cross sectional surveys are types of research designs where data is be collected across a number of organizations at one point in time. These studies are carried out once and represent a snap shot of one point in time. The target population of this study consisted of all Law firms in Kenya as at 30th December 2015. According to the Law Society of Kenya (2015) there were 7132 law firms in Kenya, practicing in various counties. These law firms practice in different areas of law.

For this study, the sample size for such cross sectional survey was determined according to three factors (Kate, 2006). These are the estimated percentage prevalence of the population of interest-10%, the desired level of confidence and the acceptable margin of error. In a study involving a simple stratified random sample, as indicated by (Yamane 1967), where the sample size had an error of 5% with a confidence coefficient of 95%, the sample size required can be calculated according to the following for formula below.

$n= N / [1 + N (e)^2]$

$n= 7,132 / [1 + 7,132*0.05^2]$

$n= 379$

Where:

N= Target Population

n=required size

e= margin of error at 5% (standard value of 0.05)

Table 1: Sample Size

Strata	Target population	Percentage	Sample size
47 counties in Kenya	7132 law firms	100	379 law firms

Source: LSK, (2015). For the full target population and sample size refer to Appendix ii.

The study applied computer to generate random numbers in order to obtain sample size that is applicable to draw conclusions since high population was involved. This study collected primary data. The data was largely quantitative in nature. The data was collected using a semi structured questionnaire. Tests of statistical assumptions tested for regression assumptions to establish if the data met the normality, linearity, independence, homogeneity and collinearity assumptions in this study. Multiple regressions were used to test the relationship between variables; firm characteristics, industry structure and strategy on organizational performance, using the following analytical model:

$P_4 = \beta_0 + \beta_1 X_{.} + \beta_2 Z_{.} + \beta_3 W_{.} + \varepsilon$……………………………………………….(iv)

Where

P_4 = performance α= constant (intercept)

X = Firm characteristics

Z = Industry structure

W = Strategy

$\beta_1, \beta_2, \beta_3$are the coefficients

ϵ-is the error term

6. RESEARCH FINDINGS AND DISCUSSIONS

The study was a descriptive cross-sectional survey of law firms in Kenya. The sample size for the study was 379. The questionnaire was administered by trained research assistants to the respective law firms. Out of 379 distributed questionnaires 356 responded by filling and returning the questionnaires. This represented a response rate of 93.93% which was therefore considered adequate for analysis. This study adopted a cut off Cronbach value of 0.7 which is considered a strong measure of reliability consistency. This was confirmation of reliability of the data used to draw conclusions from theoretical concepts.

Test of Hypotheses

The objective was to determine the joint effect of firm characteristics, industry structure and strategy on performance of law firms in Kenya and arising from this objective, the following hypothesis was formulated and tested –

Ho_4: There is no statistically significant joint effect of firm characteristics, industry structure and firm strategy on the performance of law firms in Kenya. The hypothesis was tested using both simple and multiple regression analysis.

Simple regression was used to test for individual independent effects while multiple regression analysis was used to test for joint effects. In the regression model, performance was the dependent variable, while firm characteristics, industry structure and strategy were predictor variables. The joint effect was then established by regressing firm characteristics, industry structure and strategy on performance. The results are presented in Table 2.

Table 2: Regression Results of the Individual Effect of Firm Characteristics and the Joint Effect of Firm Characteristics, Industry Structure and Strategy on Overall Performance

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
1	Firm characteristics	.585[a]	.342	.340	.38402
2	Industry structure	.523[a]	.274	.272	.58386
3	Strategy	.580[a]	.336	.335	.55811
4	Joint- Firm characteristics, Industry structure, Strategy	.830	.688	.668	.39410

(a) ANOVA

Model			Sum of Squares	df	Mean Square	F	Sig.
1	Firm characteristics	Regression	37.526	1	37.526	254.469	.000[a]
		Residual	72.260	354	.147		
		Total	109.786	355			
2	Industry Structure	Regression	47.032	1	47.032	137.967	.000[b]
		Residual	124.768	354	.341		
		Total	171.800	355			

3	Strategy	Regression	57.795	1	57.795		185.546	.000[b]
		Residual	114.005	354	.311			
		Total	171.800	355				
4	Joint- Firm characteristics, Industry structure, Strategy	Regression	116.116	3	5.372		34.586	.000
		Residual	107.300	352	.155			
		Total	223.416	355				
Model		Unstandardized Coefficients		Standardized Coefficients			T	Sig.
		B	Std. Error	Beta				
1	(Constant)	1.335	.108				12.333	.000
	Firm characteristics	.473	.030	.585			15.952	.000
2	Constant	1.109	.170				6.522	.000
	Industry structure	.686	.058	.523			11.746	.000
3	Constant	1.614	.111				14.536	.000
	Strategy	.561	.041	.580			13.622	.000
4	(Constant)	1.656	.596		-2.778	.008		
	Joint-Firm characteristics, Industry structure, Strategy	.741	.188	.383	3.933	.000	.700	0.0429

a. Dependent Variable: Performance

b. Predictors: (Constant), Firm characteristics, Industry structure, Strategy

The regression results presented in Table 2 show that the influence of firm characteristics on performance was significant (R^2=0.342, F=254.46, P<0.05) implying that Firm characteristics explains 34.2% of variation in performance while 65.8% is explained by other factors not considered in this study (error term). The regression of Firm characteristics on performance is significant with P < 0.05 and F ratio 254.46. The co-efficient β is also significant (β = 0.473, t = 15.952, P < 0.05) suggesting that when Firm characteristics changes by one unit, it leads to 0.473 units change in performance. Further industry structure also showed significant influence on performance (R^2=0.274, F=137.97, P<0.05) and strategy (R^2=0.336, F=185.546, P<0.05). This implies that individually industry structure and strategy are significant in explaining performance.

The test for joint effects was performed through a separate analysis to establish the combined influence of Firm characteristics, industry structure and strategy on performance. The regression results in table 2 show that the joint influence of firm characteristics, industry structure and strategy on performance was significant (R^2 =0.688, F= 34.586, P< 0.05). The results suggest that jointly, Firm characteristics, industry structure and strategy explain 68.8% of variation in performance, while the remaining 31.2% is explained by other factors not considered in the study (error term). The F ratio shows that the regression of Firm characteristics, industry structure and strategy on performance is statistically significant P < 0.05. It is clear from the value of R^2 =.668 and F ratio that the model was overally fit for use in the analysis. The joint effect was thus higher and significant (R^2 =0.688, F= 34.586, P< 0.05) compared to the individual effect of individual variables. In view of this finding, the hypothesis that Firm characteristics, industry structure and strategy have a statistically significant joint effect on performance of law firms in Kenya was supported.

7. CONCLUSION AND RECOMMENDATION

The fourth objective was to determine if firm characteristics, strategy and industry structure jointly influenced organizational performance. It was found that the joint effect was higher than each individual effect on performance implying that all variables jointly influence performance as against taking in to consideration each of the variables independently. Therefore, firm characteristics, strategy and industry structure is significant predictors of organizational performance. But strategy is a very strong intervener on the relationship between firm characteristics and organizational performance. It is therefore important for firms to invest more on strategy for them to realize the effect of the firm characteristics on organizational performance.

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