The Impact of Porter Model’s Five Competence Powers on Selecting Business Strategy
"An Empirical Study on Jordanian Food Industrial Companies"

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Abstract
The purpose of this study is to Applying Porter Model for Five Competitive Forces on the Food Industrial Companies in Jordan to Select Business Strategies. The variables of the study consisted of the independent variable, applying Porter model for the five competitive forces and the dependent variable, selecting business strategies (cost-leadership, differentiation and focus strategy). The study employed the statistical analytical descriptive approach based on the literature review and fieldwork to answer the research questions and discussing hypotheses. The population of the study consisted of (69) industrial company located in Amman governorate, Zarqa governorate and Mafraq governorate. The study adopted the population as the sample of the study. The sample totaled (69) industrial companies totaling (281) managers.

The study used the questionnaire to collect data and measure the sample’s attitudes towards the analysis of the effect of the five competitive forces of the industrial companies on selecting business strategies and clarifying the importance of its existence in the industry environment. The data analyzed by using SPSS, (F) test, (T) test as well as multiple regression analysis.

The findings indicated that the ranks of the competitive forces were as follows (the severity of rivalry between current industrial companies, threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and threat of new entry in industry) in a high degree and in various degrees.

The findings showed that the importance of the sample’ attitudes towards the ability of cost-leadership and differentiation strategies towards facing the threat of the five forces were high. Meanwhile, it was weak for the focus strategy.

Furthermore, the findings indicated that there is a significant statistical effect for the applying of the five competitive forces on industrial companies to select business strategies. There is a significant statistical effect for the threat of new entry on industry and the bargaining power of suppliers on selecting cost-leadership and differentiation strategies; meanwhile, there
is no effect for the bargaining power of buyers and the threat of substitute's products as well as severity of rivalry between current industrial companies on cost-leadership and differentiation strategies.

The findings showed a significant statistical difference for all competitive forces on selecting focus strategy except for the severity of rivalry between current industrial companies. The findings indicated that there are significant statistical differences between food industrial companies when selecting business strategies due to the company capital and the number of products.

Based on the findings of the study recommended the need of taking into consideration the implementation of Porter model by food industrial companies to enable them to select the suitable business strategies effectively. Additionally, directing the future studies to study the factors analysis impact of external environment and internal environment for organization from the top management perspective.

Keywords: Impact ; Porter Model`s Five Competence Powers ; Selecting Business Strategy ; Empirical Study ; Jordanian Food Industrial Companies

1. Introduction

All businesses around the world are trying to improve their efficiency and maximize their market share by optimizing the opportunities available in the market and handling the problems and challenges. To reach these goals, the managements of businesses should realize that they live within a dynamic external and internal environment which has a lot of variables that affect the company and its market value. In this context, the managements are used to conduct a SWOT model to analyze all internal and external factors affecting the company and influence their survival and prosperity. This model analyzes the strengths, weaknesses, opportunities and threats that are related directly and indirectly to the company. In the same manner, Porter (1979) developed his model which called Porters Five Forces Model that is considered as a main framework of strategic planning for the businesses. This model helps in evaluating the company's environment and understanding its competitive position that extends beyond the current rivalry threat.

A successful strategic planning enables the company to improve their competitive advantage. Strategy can be formulated on three levels, namely, corporate level, business unit level and departmental level.
Porter recognized the following three generic strategies: cost-leadership strategy, differentiation strategy and focus strategy. These three strategies are supposed to be implemented at the businesses to build a competitive advantage of the companies.

Porter 1979 explained how competitive forces shape strategy as he leaved a considerable impact on the strategic framework. He opened the door for implementing this model on levels of corporations, regions, nations and health care.

The management can use this model in dealing with competition as they used to deal with a too narrow concept of competition by looking only to the current direct competitors. But now competition extends beyond the current competitive firms to include customers, suppliers, potential entrants and substitute products. So, the competition forces will include four additional forces to be five forces in total, (Porter, 2008).

This paper tries to apply the Porter's five forces model on the Jordanian food industry. The Jordanian industries have an obvious impact on the domestic economy as they compose (52%) percent of the Gross Domestic Product (GDP) in Jordan. Food industries considered as the main component of the Jordanian industrial economy. In the year 2010, these industries participate in twenty two percent of Gross Domestic Product in Jordan, (National Peru Report, 2010).

To satisfy the various customers' needs, these companies should improve their innovation and efficiency to respond to the changes in the customer's needs and wants which insures improvement, prosperity and continuity. The food industrial companies in Jordan face a lot of problems and challenges came from internal and external environments which have been discussed several times in the Jordanian industrial champers. Furthermore, there are several competitive factors in the company's external environment which have an important role in determining the success and failure of the company and have an important impact on selecting suitable business strategy.

Despite the important role of each environmental factor that affect the business strategy, this paper will focus on analyzing the industrial environment through applying the five competence factors of Porter's model namely, the threat of new entrances, the buyers bargaining power, the suppliers bargaining power, the threat of substitute products and services and the rivalry among existing companies.

This model may help the companies in selecting a suitable business strategy. Now, the porter's model is widely used and it is one of the important models used in determining the business strategy in the most industries.
Porter encourages the businesses to focus on the factors of his model, to evaluate these factors and to classify them according to their degrees of importance when they conduct business environmental surveys. (Porter, 1980). Also, the determination of main factors of competence forces could help in exploring the ground of strategic programs in the organization. This will help highlighting the strength and weaknesses of the business internal environment which help in selecting business strategies in a good manner, (Al-doury, 2005).

The importance of this study came from exploring the relationship between strategic analysis and strategic options. The food industry in Jordan has a critical impact on supporting the economy as it has an important role in increasing the real GDP, employing thousands of employees, decreasing the trade balance deficit, and increasing the government’s tax revenues. Also, this study takes its importance from trying to enable the companies in dealing with expected competence factors in its environment. This may help the companies to select a strong and suitable business strategy to face these forces and achieve their objectives.

Johnson and Sholes (2008), define the business strategy as a plan that takes its position on the different business units the company as it focuses on improving the companies working in the same industry. Wheelen and Hunger (2008), mentioned that the business strategies characterized by the following facts:

1. Cost leadership strategy that focuses on pushing it’s costs down. This strategy called "the low cost strategy".
2. Differentiating strategy, it is a strategy of lunching a differentiated products which the company provides to it’s customers a distinctive features products that satisfies their needs as the have a willingness to pay more for these products.
3. Focus strategy: It is a strategy of focusing on a particular segment in the market. This will be achieved through introducing products that are suitable for a particular group of customers and satisfies their needs.

**Keywords:** Business Strategy, Porter Model, Cost leadership strategy, differentiating strategy, Focusing strategy.

2. **Literature review**

Karacaglu (2011), This study aimed to analyze the various competitive strategies adopted by industrial companies working in Kayseri. The study concluded that: Through analyzing the strategy he found that there are four approaches of competence strategies that has been adopted and the study develops a model through the analysis that has been selected by focusing on the certainty factor. The study also concludes that the adopted competence
strategies are the cost, differentiation and the international strategy. The study concludes that the focus strategy is not a competence strategy.

Bacanu (2010), tried to find a reference framework for the competition that includes Porters competence strategy to achieve the goal of the competitive advantage through cost and differentiation strategy. The study resulted for some products that there is an evidence of a positive relationship between the price levels of the current producers and the price levels of the new entrants. For some products, the focus strategy has been selected depending on the lower cost advantage.

Bayraktar, (2010), discussed the tools that link between the strategic option and the performance of the company. The survey includes (519) companies and the multi-regression analysis has been used. The study resulted that there is an obvious impact of the strategic option on improving the performance of the company. The strategic option has been built to improve the competitive advantage through the differentiation strategy.

Hill, (2010) aimed to improve a framework which identifies the circumstances under the dominance of the differentiation and the cost strategies. The study concludes that the differentiation strategy has an important role in pushing the cost down.

Rada, (2010), demonstrates the bargaining power of electro-mechanical suppliers of oil industry companies, especially when the suppliers can add value to their customers through selling the product using different methods to offer the product, namely the best offer, the modern offer, the prompt offer and the lowest price offer.

Roby, (2010), focused on the international marketing problem that is problem of marketing criteria against the differentiation in industrial multinational companies in Slovakia. The focus of this study is analyzing the factors of marketing strategies in addition of indentifying the factors of the marketing mix. The study resulted that the marketing and differentiation criteria are the most applied in the international market by the multinational corporation. The study also adds that the lower cost advantage came from the economies of scale and mass production.

Shin (2010), aims to re-evaluate the careen business strategies, developing business strategies that provide the optimal methods of profit maximization. The study identifies the company's business strategies that respond to the few competitive power which improve the competitive advantage. The study provide a clear headlines that guide the business strategies which workslectronically that improve profits. It adds also that the internet contributes in helping the management of adopting a suitable strategy which enables them to face environmental
challenges. This study focused on the contingency strategic theory which should be suitable with environmental circumstances the study reaches that the cost strategy is not efficient in the emerging markets. The multinational companies may benefit from using different business strategies in different circumstances. The study justifies why the companies in the developed countries use the porter's model.

Caroline and Julie, (2008), studied the companies working in emerging markets and recommend these companies to use suitable marketing strategies to face the challenges that they suffer from. The study examines the effects of single versus double strategy on the local and foreign companies financial performance through different levels of market focus strategy provides more performance in the foreign companies than the local ones. Also it is less effective in the low concentrated markets.

Raju, (2007), examines the effects of differentiation strategy on the pricing decision in the horizontal integrated market. The study resulted that there is a series of entrance to the market and also the case of entering the market in the same time. In the first case the cost of differentiation strategy is an extra cost that is targeted by the second entrant into the market. It depends on the degree of differentiation between the first and the second mover that the cost under the suitable environment is the level of market cost that affects the companies. The companies who use the differentiation strategy may have costs margins more than the lower cost strategy.

3. The study population and sample
The population of the study consisted of (69) industrial company located in Amman governorate, Zarqa governorate and Mafraq governorate. The study adopted the population as the sample of the study. The sample totaled (69) industrial companies totaling (281) managers.

4. Research Model and hypotheses
4.1 Model
Extending from the theoretical framework and the listed literature revue, the researchers found that the porters competence five forces model could be the most suitable model in analyzing the competitive situation faced by the food companies Porter (1979). Also the researchers found that the strategy suggested by porter which is the best strategy that could be used by the food companies to face the competitive circumstances, Coulter (2005).
4.2 Hypotheses

The following hypotheses have been developed the tested the extent of using porters five forces model to develop the business strategy in the food manufacturing sector.

\( H_0 \) Porter`s five forces model does not affect the selection of business strategy in the food sector companies.

\( H_{01} \) Porter`s five forces model does not affect the selection of business cost leadership strategy in the food sector companies.

\( H_{02} \) Porter`s five forces model does not affect the selection of business differentiation strategy in the food sector companies.

\( H_{03} \) Porter`s five forces model does not affect the selection of business concentration strategy in the food sector companies.

5. Methodology

For testing the extent of using porters five forces model in selecting cost business strategy, multiple regression model with five percent significance has been used. The results are summarized in the table number (1).
The results of multi-regression test of Porters Model effect of selecting the cost leadership strategy by the food industry companies.

<table>
<thead>
<tr>
<th>Regression Coefficient $\beta$</th>
<th>Computed &quot;t&quot; value</th>
<th>Significance level</th>
<th>Analyzing the competitive status</th>
</tr>
</thead>
<tbody>
<tr>
<td>.271</td>
<td>4.265</td>
<td>0.000</td>
<td>The threat of the new entrances</td>
</tr>
<tr>
<td>0.145</td>
<td>2.350</td>
<td>0.019</td>
<td>The buyers bargaining power</td>
</tr>
<tr>
<td>-.092</td>
<td>-.1555</td>
<td>0.121</td>
<td>The suppliers bargaining power</td>
</tr>
<tr>
<td>.066</td>
<td>1.011</td>
<td>0.313</td>
<td>The threat of substitution goods</td>
</tr>
<tr>
<td>-.057</td>
<td>0.890-</td>
<td>0.375</td>
<td>The intensive completion between the current players</td>
</tr>
</tbody>
</table>

The table above shows the effect of each variable of porter model in selecting the cost business strategy. The results indicate that the threat of the new entrants is the most important variable as the t value reached (4.265) with significance level equals (0.000) which is less than (0.05), but the effect of substitute variables has lower effect as then t value reached (-.890) by ignoring the negative sign.

In testing this hypothesis, multiple regression model to examine the existence of effect with statistical significance to allow for applying Porters model on selecting cost strategy in the food industry companies. The results are summarized in the table number (2).

The results of multi-regression analysis of testing the effect of all Porters model variables of selecting the cost leadership strategy used by food industry companies.

<table>
<thead>
<tr>
<th>The result of Null Hypothesis</th>
<th>$F$ Tabulated &quot;f&quot;</th>
<th>$F$ Computed &quot;f&quot;</th>
<th>R Coefficient of correlation</th>
<th>$R^2$ Coefficient of determination</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refuse</td>
<td>2.198</td>
<td>8.839</td>
<td>.372</td>
<td>.138</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The statistical results indicate the existence of statistically significant effect as the coefficient of correlation "R" reached (0.372). The coefficient of determination reached $R^2$ (0.138) which means that (13.8%) of the changes of cost strategy are resulted from Porters model application. This effect is also supported by the high value of the computed "f" value that reached (8.839) in comparison with the tabulated value (2.198). The significance level also
reached (0.000) which is less than the determined value (0.05) which indicates the acceptance of alternative hypothesis and refusing the null hypothesis.

The second sub-hypothesis

Porter`s five forces model does not affect the selection of business differentiation strategy in the food sector companies.

For testing the extent of using porters five forces model in selecting differentiation strategy, multiple regression model with five percent significance has been used. The results are summarized in the table number (3).

<table>
<thead>
<tr>
<th>Regression Coefficient $\beta$</th>
<th>Computed &quot;$t$&quot; value</th>
<th>Significance level</th>
<th>Analyzing the competitive status</th>
</tr>
</thead>
<tbody>
<tr>
<td>.294</td>
<td>4.678</td>
<td>0.000</td>
<td>The threat of the new entrances</td>
</tr>
<tr>
<td>.179</td>
<td>2.938</td>
<td>0.004</td>
<td>The buyers bargaining power</td>
</tr>
<tr>
<td>.064</td>
<td>1.096</td>
<td>.274</td>
<td>The suppliers bargaining power</td>
</tr>
<tr>
<td>-.065</td>
<td>-0.992</td>
<td>.322</td>
<td>The threat of substitution goods</td>
</tr>
<tr>
<td>0.031</td>
<td>0.495</td>
<td>.621</td>
<td>The intensive completion between the current players</td>
</tr>
</tbody>
</table>

The table above shows the effect of each variable of porter model in selecting the Differentiation strategy. The results indicate that the threat of the new entrants is the most important variable as the t value reached (4.678) with significance level equals (0.000) which is less than (0.05), but the effect of substitute variables has lower effect as then t value reached (0.495) by ignoring the negative sign.

In testing this hypothesis, multiple regression model to examine the existence of effect with statistical significance to allow for applying Porters model on selecting Differentiation strategy in the food industry companies. The results are summarized in the table number (4).

<table>
<thead>
<tr>
<th>The result of Null Hypothesis</th>
<th>$F$ Tabulated &quot;$f&quot;</th>
<th>$F$ Computed &quot;$f&quot;</th>
<th>$R$ Coefficient of correlation</th>
<th>$R^2$ Coefficient of determination</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refuse</td>
<td>2.198</td>
<td>10.372</td>
<td>0.398</td>
<td>0.159</td>
<td>0.000</td>
</tr>
</tbody>
</table>
The table above indicates the existence of the effect of Porter model on selecting cost strategy. The statistical results indicate the existence of statistically significant effect as the coefficient of correlation "R" reached (0.398). The coefficient of determination reached R² (0.159) which means that (15.9%) of the changes of cost strategy are resulted from Porters model application. This effect is also supported by the high value of the computed "t" value that reached (10.372) in comparison with the tabulated value (2.198). The significance level also reached (0.000) which is less than the determined value (0.05) which indicates the acceptance of alternative hypothesis and refusing the null hypothesis.

The third sub-hypothesis
Porter’s five forces model does not affect the selection of business focus strategy in the food sector companies.

For testing the extent of using porters five forces model in selecting Concentration strategy, multiple regression model with five percent significance has been used. The results are summarized in the table number (5).

<table>
<thead>
<tr>
<th>Regression Coefficient β</th>
<th>Computed &quot;t&quot; value</th>
<th>Significance level</th>
<th>Analyzing the competitive status</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.326</td>
<td>5.323</td>
<td>0.000</td>
<td>The suppliers bargaining power</td>
</tr>
<tr>
<td>0.128</td>
<td>2.029</td>
<td>0.043</td>
<td>The threat of the new entrances</td>
</tr>
<tr>
<td>0.128</td>
<td>-2.017</td>
<td>0.045</td>
<td>The threat of substitution goods</td>
</tr>
<tr>
<td>-0.131</td>
<td>-1.998</td>
<td>0.047</td>
<td>The buyers bargaining power</td>
</tr>
<tr>
<td>0.083</td>
<td>1.407</td>
<td>0.167</td>
<td>The intensive completion between the current players</td>
</tr>
</tbody>
</table>

The table above shows the effect of each variable of porter model in selecting the cost business strategy. The results indicate that the threat of the new entrants is the most important variable as the t value reached (5.323) with significance level equals (0.000) which is less than (0.05), but the effect of substitute variables has lower effect as then t value reached (1.409) by ignoring the negative sign.

In testing this hypothesis, multiple regression model to examine the existence of effect with statistical significance to allow for applying Porters model on selecting cost strategy in the food industry companies. The results are summarized in the table number (6).
The results of multi-regression analysis of testing the effect of all Porters model variables of selecting the focus strategy used by food industry companies.

<table>
<thead>
<tr>
<th>The result of Null Hypothesis</th>
<th>F Tabulated &quot;f&quot;</th>
<th>F Computed &quot;f&quot;</th>
<th>R Coefficient of correlation</th>
<th>R² Coefficient of determination</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refuse</td>
<td>2.198</td>
<td>9.410</td>
<td>0.382</td>
<td>0.146</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The table above indicates the existence of the effect of Porter model on selecting cost strategy. The statistical results indicate the existence of statistically significant effect as the coefficient of correlation "R" reached (0.382). The coefficient of determination reached \( R^2 \) (0.146) which means that (14.6%) of the changes of cost strategy are resulted from Porters model application. This effect is also supported by the high value of the computed "f" value that reached (9.410) in comparison with the tabulated value (2.198). The significance level also reached (0.000) which is less than the determined value (0.05) which indicates the acceptance of alternative hypothesis and refusing the null hypothesis.

6. Conclusions

Based on the analysis of the industry environment, analyzing the porter's model, analyzing the competitive strategy and the analysis of statistical analysis of data of the study population answers, the study found the following results:

- The classification of the porter's model variables according to their importance is as follows: firstly, the differentiation strategy, then the focus strategy and finally the cost strategy.
- The five competence forces of the porter's model according to their importance in the differentiation and cost strategies are arranged as follows: the threat of new entrances, the suppliers bargaining power, the severity of competition between the current food companies in the market, the buyers bargaining power and finally the threat of the alternative products.
- The five competence forces of the porter's model according to their importance in the focus strategy are arranged as follows: the suppliers bargaining power, the threat of new entrances, the buyers bargaining power the threat of the alternative products and finally the severity of competition between the current food companies in the market.
- The porter's model considered as a strong model in dealing with the challenges faced by the food industry companies. It is also considered as a starting point in the strategic management and evaluation the investment enterprises.
The porter's model can be used as a guide for the top-management in their rational decisions.

- It enables the food industry companies to develop efficient strategies which lead to reach a competitive advantage over their rivals and then dominate the market.

7. Recommendations

In light of the above results the study provides the following recommendations:

- The importance of using porter's model when analyzing the environment of the industry which enables the companies to select appropriate strategy.

- The necessity of food companies of raising the invested capital to gain more market share and competitive advantage.

- After diagnosis the market by using the porter's model it is recommended to raise plans to deal with the environmental variables by solving the problems resulted from the threats and optimizing the opportunities.

- The companies should focus on the competitive business strategy.

- Allocate funds for future research to link between the external and internal environmental variables which affect the process of selecting appropriate business strategy.
References


