**ROLE OF BUSINESS STRATEGIES ON THE FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN RWANDA**

**A CASE OF RULIBA CLAYS (2016-2019**

**By:**

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**Research Project Submitted In Partial Fulfillment Of The Requirement For The Award In Bachelor Of Science With Honours In Accounting (Bsca) Submitted To School/Faculty Of Business Management And Economics, University of Kigali.**

**JULY 2021**

## DECLARATION

This Dissertation is my original work and has not been presented in UOK worship for a degree in any other University or for any other award.

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**DECLARATION BY SUPERVISOR**

We confirm that the work reported in this Dissertation is carried out by the candidate under my supervision

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## DEDICATION

I dedicate this research to

My beloved Parents

My Brothers

My friends and

Classmates

## ACKNOWLEDGEMENT

Firstly, I would like to express my heart-felt thanks to the management of university of Kigali and all staff members of UOK Kigali Campus, who have helped me directly or indirectly in accomplishing this research project and giving me a learning environment to grow personally and professionally. In a very special way, I would like to recognize the head of Bachelors together with other several lecturers for help rendered, especially the lecturer of school of Finance and Accounting. My sincere appreciation and gratitude goes to my supervisor Mrs. DUKUNDE Angelique for taking her time in guiding in shaping and developing this research project.

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## ABSTRACT

The choice of the right business strategy can have immense influence on its financial performance in a given market. Such choices are built on the firm’s overall corporate level strategy with the aim of influencing performance. The main objective was to establish the effect of generic business strategies on the financial performance of manufacturing companies in Rwanda. The research design was both qualitative, descriptive and cross-sectional in nature incorporating both primary and secondary data. Data was collected from a total of 36 participants in the study population. The study used a structured questionnaire to collect data from the respondents, which was self-administered. The questionnaires were completed by the sales and marketing officers, inventory officers and finance managers; secondary data was generated from published works related to this subject. Due to time limitations, the researcher engaged a research assistant to hasten the process of data collection. The data was analyzed using SPSS version 24, where descriptive statistics such as means, and standard deviation was analyzed. Additionally, the findings shows that there is a strong positive relationship (r=.609\*) was established because .609 is close to 1, implying that a positive relationship that was significant at 0.01 level existed between business strategies and financial performance of manufacturing companies Furthermore, Net profit margin RULIBA CLAYS measures the overall efficiency of the business strategies implemented by RULIBA CLAYS.. In conclusion, it was suggested that international schools need to make proper choices of their strategies if they expect to improve performance. The implication of this was that choosing either of the strategies would have a strong impact on the financial performance of the schools. It is suggested that future research focuses on a larger study, evaluating the effects of these strategies on individual international schools

## TABLE OF CONTENTS

[DECLARATION ii](#_Toc75687069)

[DEDICATION iii](#_Toc75687070)

[ACKNOWLEDGEMENT iv](#_Toc75687071)

[ABSTRACT v](#_Toc75687072)

[TABLE OF CONTENTS vi](#_Toc75687073)

[CHAPTER ONE 1](#_Toc75687074)

[GENERAL INTRODUCTION 1](#_Toc75687075)

[1.0. Introduction 1](#_Toc75687076)

[1.1.Background to the study 1](#_Toc75687077)

[1.2. Problem statement 3](#_Toc75687078)

[1.3. Objectives of the Study 3](#_Toc75687079)

[1.3.1. Specific objectives 3](#_Toc75687080)

[1.4. Research Questions 3](#_Toc75687081)

[1.5. Scope of the study 4](#_Toc75687082)

[1.5.1. Geographic scope 4](#_Toc75687083)

[1.5.2. Time scope 4](#_Toc75687084)

[1.5.3. Content scope 4](#_Toc75687085)

[1.6. Significance of the study 4](#_Toc75687086)

[1.6.1. Personal interest 4](#_Toc75687087)

[1.6.2. Scientific and academic interest 4](#_Toc75687088)

[1.6.3. Social interest 4](#_Toc75687089)

[1.7 The Limitation of the study 5](#_Toc75687090)

[CHAPTER TWO 6](#_Toc75687091)

[LITERATURE REVIEW 6](#_Toc75687092)

[2.0. Introduction 6](#_Toc75687093)

[2.1. Conceptual Review 6](#_Toc75687094)

[2.1.1. Review on Strategies 6](#_Toc75687095)

[2.1.1.2. Porter’s (1985) Generic Business Strategies 7](#_Toc75687096)

[2.1.2. Review on Financial performance 8](#_Toc75687097)

[2.1.2.1. Determinants of Bank Performance 9](#_Toc75687098)

[2.1.2.2. Indicators of financial performance 10](#_Toc75687101)

[2.1.3. Altman’s Z-score Model 12](#_Toc75687102)

[2.1.3.1. Altman’s Z-score Model Formula 13](#_Toc75687103)

[2.1.3.2. What Z-Scores Mean ............................................................................................................13](#_Toc75687104)

[2.1.3.3. The Five Financial Ratios in Z-Score Explained 14](#_Toc75687105)

[2.2. Theoretical Review 15](#_Toc75687106)

[2.2.1 Resource Based View Theory 16](#_Toc75687107)

[2.2.2. Organizational Development Theory 17](#_Toc75687108)

[2.3. Review of related literature 18](#_Toc75687109)

[2.4. Conceptual frame work 19](#_Toc75687110)

[2.5. Summary and Research Gaps 20](#_Toc75687111)

[CHAPTER THREE 21](#_Toc75687112)

[RESEARCH DESIGN AND METHODOLOGY 21](#_Toc75687113)

[3.0 Introduction 21](#_Toc75687114)

[3.1 Research design 21](#_Toc75687116)

[3.2 Target Population 21](#_Toc75687117)

[3.3 Sample Design 21](#_Toc75687118)

[3.3.2 Sampling Technique................................................................................................................ 22](#_Toc75687120)

[3.3 Data Collection techniques......................................................................................................... 22](#_Toc75687121)

[3.4 Validity and Reliability............................................................................................................... 23](#_Toc75687125)

[3.4.1.Reliability test findings............................................................ .............................................. 23](#_Toc75687126)

[3.5. Data Processing......................................................................................................................... 24](#_Toc75687129)

[3.5.1. Editing..................................................................................................................................... 25](#_Toc75687130)

[3.5.2 Coding...................................................................................................................................... 25](#_Toc75687131)

[3.5.3. Tabulation............................................................................................................................... 25](#_Toc75687132)

[3.6. Data Analysis methods.............................................................................................................. 25](#_Toc75687133)

[3.7. Ethical considerations................................................................................................................ 26](#_Toc75687134)

[CHAPTER FOUR 27](#_Toc75687135)

[DATA ANALYSIS, PRESENTATION AND INTERPRETATION 27](#_Toc75687136)

[4.0. Introduction 27](#_Toc75687137)

[4.1. Demographic analysis 27](#_Toc75687138)

[4.2. Research Findings 29](#_Toc75687142)

[4.2.1. Business Strategies used by RULIBA CLAYS 29](#_Toc75687143)

[4.2.2 Analysis of level of financial performance of RULIBA CLAYS 31](#_Toc75687146)

[4.2.2.1. Comparative statement analysis of current Assets and current liabilities 32](#_Toc75687147)

[4.2.2.2. Profitability ratios 32](#_Toc75687149)

[4.2.2.3. Financial Health using the Z-score Model 35](#_Toc75687156)

[4.2.3. Relationship between business strategies and RULIBA CLAYS financial performance 38](#_Toc75687165)

[CHAPTER FIVE 40](#_Toc75687167)

[SUMMARY, RECOMMENDATIONS AND CONCLUSION 40](#_Toc75687168)

[5.0. Introduction 40](#_Toc75687169)

[5.1. Summary of findings 40](#_Toc75687170)

[5.2. Conclusion 42](#_Toc75687171)

[5.3. Recommendations 43](#_Toc75687172)

[5.3.1.Rwanda Government 43](#_Toc75687173)

[5.3.2.To RULIBA CLAYS 43](#_Toc75687174)

[5.4.To future researcher 43](#_Toc75687175)

[REFERENCES 44](#_Toc75687176)

[APPENDIX a](#_Toc75687177)

**LIST OF TABLES**

[Table 3.1: Sample Size ......................................................................................................................22](#_Toc75687119)

[Table 3.2: Case Processing Summary............................................................................................... 24](#_Toc75687127)

[Table 3.3. Reliability Statistics.. ...............................................................................................24](#_Toc75687128)

[Table 4.1: Gender of the Respondents 27](#_Toc75687139)

[Table 4.2: Age of Respondents 28](#_Toc75687140)

[Table 4.3: Working Experience 28](#_Toc75687141)

[Table 4.4. Focus strategies on Financial performance of RULIBA CLAYS 29](#_Toc75687144)

[Table 4.5: Differentiation strategy on financial performance of RULIBA CLAYS 30](#_Toc75687145)

[Table 4.6: Comparative summary of statement analysis of RULIBA CLAYS 32](#_Toc75687148)

[Table 4.7: Return on asset (ROA) 33](#_Toc75687151)

[Table 4.8: Return on equity 34](#_Toc75687153)

[Table 4.9: Net profit margin ratio 35](#_Toc75687155)

[Table 4.10.Working capital of RULIBA CLAYS 36](#_Toc75687158)

[Table 4.11.Retained Earnings/Total Assets of RULIBA CLAYS 37](#_Toc75687160)

[Table 4.12 Retained Earnings/Total Assets of RULIBA CLAYS 37](#_Toc75687162)

[Table 4.13. Market Value of Equity of RULIBA CLAYS 38](#_Toc75687164)

[Table 4.14: Statistical test using Pearson’s correlation matrix 38](#_Toc75687166)

## CHAPTER ONE

## GENERAL INTRODUCTION

## 1.0. Introduction

This chapter presents Background to the study, problem statement, research objectives; research Questions, hypothesis (optional), scope of the study, significance of the study, structure of the dissertation

## 1.1.Background to the study

All over the world, governments and other development agencies have underscored the important role of manufacturing companies right from helping address unemployment and social issues to be a major source of government revenue for infrastructural projects. Manufacturing companies, by number, dominate the world business stage. Although precise, up-to-date data are difficult to obtain, estimates suggest that more than 95% of enterprises across the world are manufacturing companies (Ayyagari et al. 2011).

Japan has the highest proportion of manufacturing companies among the industrialized countries, accounting for more than 99% of total enterprises (EIU 2010). India, according to its Ministry of Micro, Small and Medium Enterprises, had 13 million Manufacturing companies in 2008, equivalent to 80% of all the country’s businesses (Ghatak, 2010). In South Africa, it is estimated that 91% of the formal business entities are manufacturing companies (Abor and Quartey, 2010). Estimated data for the 27 countries in the European Union for 2012 also illustrate the importance of Manufacturing companies (EU, 2012).

Indeed the growth and financial performance of manufacturing companies has gained a lot of interest globally. Whilst different theories exist in explaining why some Manufacturing companies outperform others using competitive strategies (Mintzberg, 1988; Porter, 1980 and 1985) and firm specific resource capabilities (Priem and Butler, 2001; Rouse and Daellenbach, 2012), this work examines the impact of Business Plans on the financial performance of Manufacturing companies in Ghana.

According to Osiyevskyy et al. (2013), companies that plan do better than companies that do not.

The argument is whether business planning has any correlation with manufacturing companies’ financial performance? The answer to this question has importantimplications for manufacturing companies’ managers and entrepreneurs, who make strategic decisions regarding investing scarce resources based on their experiences and beliefs about the contribution of business planning activities to business growth and success (Honig, 2004). Since 1970, this deceptively complex relationship has been investigated by strategic management scholars attempting to quantify the link between business planning and corporate financial performance (e.g., Boyd, 1991; Powell, 1992). More recently, this issue has also emerged in the field of entrepreneurship, where the impact of business planning on survival and growth of new ventures and nascent entrepreneurs has seen endless scrutiny and debate (Castrogiovanni, 1996; Delmar & Shane, 2003; Honig & Samuelsson, 2012).

Despite dozens of prior studies, employing a variety of conceptual frameworks, approaches and measures of business planning’s impact on firm financial performance, scholars remain divided in their findings. Empirical evidence has supported positive non-significant (Honig & Samuelsson, 2012) and negative (Carter et al., 1996; Allison et al., 2010) associations between business planning and organizational financial performance. As a result, researchers face considerable challenge when attempting to link planning and financial performance; including time delays between planning activity and expected results, and the considerable complexities of both constructs. It also likely that the differing results may reflect the distinct impact of unique components of the business planning process (Delmar & Shane, 2013).

Rwanda manufacturing industry is still small but growing as it contributed about 17 % to the country’s GDP in 2019. The sector is characterized by gradual diversification from basic manufacturing to more value-adding activities in other sub-sectors that include: Fast-moving consumer goods such as detergents, body care products, paper tissues, plastic goods, papers, chemicals, beverages, textiles, leather and footwear and cosmetics; Construction materials such as granite tiles, cement, roofing sheets and tiles and steel bars and light items; Furniture Laboratory Equipment and electronic & Automotive manufactured goods such as phones, computers and vehicle-assembly.

The economy is heavily dependent on the growing sector as primarily and fully manufactured exports from Rwanda have found a big market in the EAC region due to their high quality and strategic positioning of the country. Although Rwanda’s liberalized economy has exposed locally manufactured products to stiff competition from imports, compliance with required international standards gives them an upper hand. (RDB, 2019)

## 1.2. Problem statement

Most manufacturing companies in Rwanda are dominated by sole-proprietorship, who make business decisions, based non-formal decision making processes, but rather on their personal inclinations and leadership behaviors which do not help these enterprises to perform as expected, in some cases (Ghatak, 2018). Besides, most manufacturing companies are busily engulfed with operational problems, which prevent them from devoting adequate time to strategic management issues. Thus, the business owners and managers place very little value on formal planning, strategic thinking and a developing long-term vision. In the face of weak leadership and managerial capabilities, most manufacturing companies do not survive after their second anniversaries (Kayanula 2020).

A cursory review of literature also reveal that not much has been studied on manufacturing companies, as regards how they can take advantage of formal planning, strategic thinking and a developing long-term vision to improve upon their financial performance for better growth. This study therefore sought to bridge the knowledge gap by investigating the effect of business planning processes on the financial performance of manufacturing companies in Rwanda.

## 1.3. Objectives of the Study

The aim of the study is to assess the role of business strategies on the financial performance of manufacturing companies in Rwanda.

## 1.3.1. Specific objectives

The specific objectives are as follows;

1. To find out business strategies used by RULIBA CLAYS as manufacturing company
2. To analyze the level of financial performance of RULIBA CLAYS years.
3. To analyze the relationship between business strategies and financial performance of RULIBA CLAYS as manufacturing company

## 1.4. Research Questions

The following research questions were investigated:

1. What are business strategies used by RULIBA CLAYS as manufacturing company?
2. What is the level of financial performance of RULIBA CLAYS?
3. What is the relationship between business strategies and financial performance of RULIBA CLAYS as manufacturing company?

## 1.5. Scope of the study

The scientific regulations require to precisely defining the angle in which the topic has been treated. It means content, space and period covered.

## 1.5.1. Geographic scope

This research was carried out in RULIBA CLAYS locate in Nyarugenge District and Kigali city based on the availability of data for this research.

## 1.5.2. Time scope

As far as the period of the study was limited to the period 2016 up to 2019.

## 1.5.3. Content scope

The research that conducted fallen in accounting domain

## 1.6. Significance of the study

The choice of this topic is motivated by the importance of business strategies which is an independent, and ascertain the relationship between operational feasibility, utility of inventory control management in the customer related issues of the organization.. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the business strategies and manufacturing company financial performance.

## 1.6.1. Personal interest

The study helped the researchers to acquire more knowledge on how to conduct the research, to interpret findings and getting more information about business strategies in manufacturing companies hence their financial performance and this study will help us to get a bachelor degree in Accounting.

## 1.6.2. Scientific and academic interest

This study responded to academic requirements saying that each final student may write and present a dissertation in order to link the theory to the practice.

This study will constitute a help to other future researchers who will exploit it for various raisons; may be for rising the options differ from mine, reforming or may be for bringing a complementary.

## 1.6.3. Social interest

This study brought out different suggestions that contribute to the research of problem solutions that companies face. This study will help managers of RULIBA CLAYS to improve its financial performance through business strategies, then this will be done through the suggestions we have given in this work and the recommendations issued in this research.

## 1.7 The Limitation of the study

The study is to be conducted at RULIBA CLAYS, Nyarugenge District. Furthermore, the researcher may be facing the constraints that it is caused by having different duties existed from side of researcher where he had to go for work and doing a research at the same time.

The researcher, to overcome those constraints is take leave to accomplish his research where he is spent two weeks to collect information of research, and also is gets information related to the research topic, the researcher are used different reports especially financial reports, for the questionnaires are delay in hands of respondents and he is used to call some of them and ask for an assistance for managers to collect them.

## CHAPTER TWO

## LITERATURE REVIEW

## 2.0. Introduction

This section contains a literature overview and theoretical background of business strategies; the evolution of its role and the definition of certain concepts are provided through this section.

## 2.1. Conceptual Review

The definition of key concept is very important research and social sciences studies since one word can be define differently by different researcher and therefore the meaning of that word will be different according to the domain of research.

## 2.1.1. Review on Strategies

The word strategy has several perspectives to it and therefore does not have a single definition. Strategy is direction adopted by firms in the long run so as to attain competitive advantage in changing business environment through use of core competencies and resources to fulfill the expectations of the stakeholders (Scholes & Whittington, 2005).

Therefore, strategy is derived from a wealth of experience, observation and knowledge. In its broad perspective, strategy can be considered as a coordinated plan or outline for making decisions and carrying out the activities of a firm, using available resources to create value and to achieve organizational goals, particularly in the long term. According to Porter (2008), strategy is the process by which an organization can create a unique and valuable position by undertaking a set of activities that are different from those of an organization's competitors. Successful strategies have some common traits such as long-term, simple, and clear goals.

This allows the enterprise to develop a sustainable and effective plan of action, as well as to have clear and measurable checkpoints during the implementation of the plan. A deep understanding of the competitive environment and monitoring the environmental changes over time, is an essential prerequisite to identifying opportunities and threats to avoid. An organization has to objectively assess its resources. It has to identify its strengths so that it can increase them and its weaknesses in order to neutralize or resize them. Consequently, the organization has to evaluate the resources and skills that it already has and those it requires in the strategy selection.

Porter (1996) emphasized the uniqueness of strategy by stating that strategy is the creation of a unique and valued position involving a different set of activities. Its purpose is to provide direction on a day to day basis so as to achieve the said targets to fit with the changes in the operating environment (Pearce & Robinson, 2007). The business level strategies bridge corporate and functional strategy with a concentration on mission, business goals and competencies. Competitiveness is closely linked to knowledge of the external environment and of the mechanisms that lead to some imperfections in the market.

In efficient markets, which are characterized by perfect competition, the homogeneous distribution of resources and information would not allow any real competitive advantage. On the contrary, the edge of an organization over its rivals emerges when the market is imperfect. To achieve a competitive advantage, an organization must have a firm knowledge of its own skills and resources, the environment and the industry in which it operates, and the internal and external sources for competitive advantage.

## 2.1.1.2. Porter’s (1985) Generic Business Strategies

Business level strategy is a deliberate choice about how it will perform the value chain’s primary activities in ways that create unique value to the organization. There are three major generic strategies under business strategies (Porter, 1985). These include:

**1. Focus Strategy**

Implementing a focus strategy constitutes serving the needs of a limited group or segment very well. Often times, this is a remainder category for firms that clearly have neither a cost advantage of some type nor receive a premium price for their product. A firm with a focus strategy must carefully consider its target market and what they desire.

This strategy edges on a specific group or product, like the senior citizens or youth. By its nature, focalization is adopted more frequently by smaller organizations because they naturally work on a smaller scale and thus have greater ability to operate in niche markets. However, focalization means specializing to meet a particular need. The advantage of this strategy is the ability to display efforts and resources in a limited context and therefore benefit from a greater competitive strength (Caroli, 2009).

1. **Differentiation Strategy**

According to Porter (1980) as cited by Kamau (2013) differentiation strategy is intended to increase the perceived value of the products and services compared to competitors. It focuses on developing a unique product or a perception of a unique product that customers are willing to pay a premium for.

If a firm is not receiving a premium price for its goods or services it is not a differentiator. A firm seeking to follow a differentiation strategy should attempt to develop and enhance its resources that promote customer responsiveness, quality, and or innovation.

The costs are still important to a differentiator because it is possible that the costs of making the product unique will be greater than the premium consumers are willing to pay for it. Differentiation goes beyond price and therefore cannot be based simply on cost advantage. The added value can be intrinsic to the characteristics of the product, as well as intangible elements of the product or service. Competing in a limited number of segments refines organizational expertise through experience and learning and helps organizations generate competitive advantages. Organizations that do not implement differentiation strategy are unlikely to gain a competitive advantage in any of the product or service offered. This lends weight to Porter’s (1996) assertion that firms should only compete in those segments in which they are able to do well.

1. **Cost Leadership Strategy**

The low-cost strategy emphasizes having the lowest costs, not necessarily the lowest price, in a market. A firm attempting to realize a low-cost strategy should stress resources that facilitate efficiency. A firm that has successfully achieved a low-cost position will have the lowest costs relative to competitors. A firm can use such a position to either lower its prices and gain market share and sales from rivals or keep its prices at the present market level and make relatively more profit per unit sold. The key idea is that cost and price are independent choices, and this strategy is focused on cost (Caroline & Julie, 2009).

Previous studies have suggested that the cost leadership strategy tends to take place through experience, investment in production facilities, conservation and careful monitoring of the firm’s operating costs(Balsam, Fernando, & Tripathy, 2011; Valipour, Birjandi, & Honarbakhsh, 2012). Other studies have also suggested that stringent cost monitoring mechanism are implemented by organization’s managers to limit opportunistic behaviors and the reduction of the resources available for discretionary spending in the firm(D. Banker, Mashruwala, & Tripathy, 2014; Oyewobi, Windapo, & James, 2015). At the same time, Porter (1985) also insinuated that the need to control costs tightly and to refrain from incurring too many expenses from innovation and marketing are important in ensuring the success of the firm in the implementation of this strategy(Balsam et al., 2011).

## 2.1.2. Review on Financial performance

The financial performance of banks must be expressed in terms of financial performance and the financial performance had no meaning except in the sense of an increase of net asset. Financial performance is a company’s ability to earn a reasonable profit on the owner’s investment (Warren, 2005). Most organizations exist is to earn profit and financial performance ratios show a company’s overall efficiency and performance. We can divide financial performance ratios into parts: Profit margin and returns.

Ratios that show margins represent the firm’s ability to translate sakes dollars into profits at various stages of measurement. Ratios that show returns represent the firm’s ability to measure the overall efficiency of the firm in generating Returns for its shareholders (Bessis, 2005).

## 2.1.2.1. Determinants of Bank Performance

In most of the literatures, there are two way and sometimes three ways of classifying the determinants of bank performance. Al-Tamimi, 2010 and Aburime, 2005, for instance classified the determinant factors in to two: bank specific (internal) and macroeconomic variables. The internal factors are individual bank characteristics which affect the bank's performance. These factors are basically influenced by the internal decisions of management and board.

The external factors are sector wide or country wide factors which are beyond the control of the company and affect the financial performance of banks. Other studies, Ongore, 2011, attempted to integrate sector specific factors like bank ownership bank size and concentration as a specific determinant of bank performance. This approach seems to segregate the external factor determinants in to sector specific and macroeconomic variable.

However, some authors, Chantapong, (2005); Olweny and Shipho, (2011) focused on sector specific variables with total neglecting of the macroeconomic variables like GDP and inflation. In general the two approaches seem similar in context and wide variation is not observed in classifying the determinants of bank performance and most of the researchers used both internal and external variables in their studies.

# 1. The Internal Determinants

Internal determinants of bank performance can be defined as factors that are influenced by a bank’s management decisions.

Such management effects must definitely affect the operating results of banks. Although a quality management leads to a good bank performance, it is difficult, if not impossible, to assess management quality directly. In fact, it is implicitly assumed that such a quality must be reflected in the operating performance Anna P. I et al (2009).

More precisely, the internal factors are bank specific variables which influence the financial performance of specific bank, Al-Tammie, (2010) Even if there is variation in the number of determinant factors pointed out by the number of studies, the variables can be summarized using the CAMEL framework (**Capital Adequacy, Asset Quality, Management, Earnings and Liquidity**) to proxy the bank specific factors as done in the study of Dang, (2011).

# 2. External Determinants of Bank Performance

A factor that is pertinent to a broad economy at the regional or national level and affects a large population rather than a few select individuals, Macroeconomic factors such as economic output, unemployment, inflation, savings and investment are key indicators of economic performance and are closely monitored by governments, businesses and consumers. External determinants of bank financial performance are factors that are beyond the control of a bank’s management. They represent events outside the influence of the bank, Al-Tamimi, (2010) the two major components of the external determinants are sector specific and macroeconomic factors.

## 2.1.2.2. Indicators of financial performance

The most popular financial performance measurements are: Profit margin on sale, Return investment ratios, and return on equity. Return On Asset = (Net Income / Total Assets) \* 100 In accordance with the study by Waymond (2007), Financial performance ratios are often used in a high stream as the indicators of credit analysis in banks, since financial performance is associated with the results of management performance. ROA and ROE are the most commonly used ratios, and the quality level of ROE is between 15% and 30%, for ROA is at least 1%. Measuring financial performance is the most important measure of the success of the business (Mishkin, 2002).

According to (PhillRusseil , 2003), performance is a relative term. It is hard to say what percentage of performance represents a profitable firm as the profits will depend on the product life cycle, competitive conditions in the market, borrowing costs, expenses management

According to Matan Feldman and ArkdynLibman (2007), it is also called as short – term ratio. This ratio helps to understand the liquidity in a business which is the potential ability to meet current obligations. This ratio expresses the relationship between current assets and current liabilities of the business concern during a particular period.

The financial performance of banks is expressed in terms of financial performance and the financial performance has no meaning except in the sense of an increase of net asset. Financial performance is a company’s ability to earn a reasonable profit on the owner’s investment (Warren E. Buffett, 2005).

In accordance with the study by Waymond (2007), financial performance ratios are often used in a high stream as the indicators of credit analysis in banks, since financial performance is associated with the results of management financial performance. ROA and ROE are the most commonly used ratios, and the quality level of ROE is between 15% and 30%, for ROA is at least 1%. Measuring financial performance is the most important measure of the success of the business (Mishkin, 2002).

A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a large return on their investment. Increasing financial performance is one of the most important tasks of the business managers; these ones look for the way to improve financial performance

##### **Current ratio (CR)**

Current ratio =

According to PhillRusseil (2015), performance is a relative term. It is hard to say what percentage of performance represents a profitable firm as the profits is depend on the product life cycle, competitive conditions in the market, borrowing costs, expenses management. Analysts must be interested in the set of ratios here include some of the traditional earning based performance measures for a better understanding of growth rate.

The gross profit margin is a measure of how efficiently a company converts its cost of goods sold into sales.

**Profit margin on sales**

Profit margin on sales measures a company’s efficiently in converting sales into net income.

Profit margin on sales =

##### **Return on assets**

The financial performance is measured in terms of total relationship between net profit and assets. The return on assets may also be called profit to assets. It is computed as follow:

ROA =

##### **Return on equity**

It examines the financial performance from the perspective of the equity investors by relating profits available for the equity shareholders with the book value of the equity investments.

ROE=

It influence the market price of equity share, it indicates to how the funds of the owners have been used by the equity firm and by it also examines whether has able to earn satisfactory return of the owner or not.

##### **Return on investment**

These ratios are computed by related the profits of a firm to its investments. Such ratios are popularly termed as return on investments .It indicates the percentage of return on the capital employed in business. It calculated on the basic of the following formula:

ROI =

The return on capital invested is a concept that measures profit which a firm earns on investing unit of capital.

## 2.1.3. Altman’s Z-score Model

The Z-score model was introduced as a way of predicting the probability that a company would collapse in the next two years. The model proved to be an accurate method for predicting Bankruptcy is the legal status of a human or a non-human entity (a firm or a government agency) that is unable to repay its outstanding debts on several occasions.

According to studies, the model showed an accuracy of 72% in predicting bankruptcy two years before it occurred, it occurred, and it returned a false positive of 6%. The false-positive level was lower compared to the 15% to 20% false-positive returned when the model was used to predict bankruptcy one year before it occurred.

When creating the Z-score model, Altman used a weighting system alongside other ratios that predicted the chances of a company going bankrupt. In total, Altman created three different Z-scores for different types of Businesses. There are four main types of businesses to choose when forming a company: sole proprietorships, partnerships, limited liability companies, and corporations.. The original model was released in 1968, and it was specifically designed for public manufacturing companies with assets in excess of $1 million. The original model excluded private companies and non-manufacturing companies with assets less than $1 million.

Later in 1983, Altman developed two other models for use with smaller private manufacturing companies. Model A Z-score was developed specifically for private manufacturing companies, while Model B was created for non-publicly traded companies. The 1983 Z-score models comprised varied weighting, predictability scoring systems, and variables.

## 2.1.3.1. Altman’s Z-score Model Formula

The Z-score model is based on five key financial ratios, and it relies on the information contained in the [10-K report](https://www.sec.gov/). It increases the model’s accuracy when measuring the financial health of a company and its probability of going bankrupt.

The Altman’s Z-score formula is written as follows:

**​ζ = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E**

Where:

* **Zeta** (**ζ**) is the Altman’s Z-score
* **A** is the Working Capital/Total Assets ratio
* **B** is the Retained Earnings/Total Assets ratio
* **C** is the Earnings Before Interest and Tax/Total Assets ratio
* **D** is the Market Value of Equity/Total Liabilities ratio
* **E** is the Total Sales/Total Assets ratio

# 2.1.3.2. What Z-Scores Mean

Usually, the lower the Z-score, the higher the odds that a company is heading for bankruptcy, A Z-score lower than 1.8 means that the company is in financial distress and with a high probability of going bankrupt. On the other hand, a score of 3 and above means that the company is in a safe zone and is unlikely to file for bankruptcy.

Score between 1.8 and 3 means that the company is in a gray area and with a moderate chance of filing for bankruptcy, Companies with scores above 3 are unlikely to enter bankruptcy.

Investors use the Altman’s Z-score to make a decision on whether to buy or sell a company’s stock, depending on the assessed financial strength. If a company shows a Z-score closer to 3, investors may consider purchasing the company’s stock since there is minimal risk of the business going bankrupt in the next two years.

However, if a company shows a Z-score closer to 1.8, the investors may consider selling the company’s stock to avoid losing their investments since the score implies a high probability of going bankrupt.

## 2.1.3.3. The Five Financial Ratios in Z-Score Explained

The following are the key financial ratios that make up the Z-score model:

**1. Working Capital/Total Assets**

Working capital is the difference between the current assets of a company and its  Current Liabilities Current liabilities are financial obligations of a business entity that are due and payable within a year. A company shows these on the. The value of a company’s working capital determines its short-term financial health. A positive working capital means that a company can meet its short-term financial obligations, and still make funds available to invest and grow.

In contrast, negative working capital means that a company will struggle to meet its short-term financial obligations because there are inadequate current assets.

**2. Retained Earnings/Total Assets**

The retained earnings/total assets ratio shows the amount of retained earnings or losses in a company. If a company reports low retained earnings to total assets ratio, it means that the company is financing its expenditure using borrowed funds rather than funds from its retained earnings. It increases the probability of a company going bankrupt.

On the other hand, a high retained earnings to total assets ratio shows than a company uses its retained earnings to fund capital expenditure. It shows that the company achieved financial performance over the years, and it does not need to rely on borrowings.

**3. Earnings before Interest and Tax/Total Assets**

EBIT, a measure of a company’s financial performance, refers to the ability of a company to generate profits solely from its operations. The EBIT/Total Assets ratio demonstrates a company’s ability to generate enough revenues to stay profitable and fund ongoing operations and make debt payments.

**4. Market Value of Equity/Total Liabilities**

The market value also known as market capitalization template. This market capitalization template helps you differentiate between market capitalization and enterprise value. Market Capitalization (Market Cap) is the most recent market value of a company’s outstanding shares. The Market Cap is equal to the current share price multiplied by the number of shares outstanding. The inventory is the value of a company’s equity. It is obtained by multiplying the number of outstanding shares by the current price of stocks.

The market value of the equity/total liabilities ratio shows the degree to which a company’s market value would decline when it declares bankruptcy before the value of liabilities exceeds the value of assets in the balance sheet. A high market value of equity to total liabilities ratio can be interpreted to mean high investor confidence in the company’s financial strength.

**5. Sales/Total Assets**

The sales to total assets ratio shows how efficiently the management uses assets to generate revenues vis-à-vis the competition. A high sale to total assets ratio is translated to mean that the management requires a small investment to generate sales, which increases the overall financial performance of the company.

In contrast, a low or falling sales to total assets ratio means that the management will need to use more resources to generate enough sales, which will reduce the company’s financial performance.

## 2.2. Theoretical Review

The theoretical foundation of this study was based on Resource Based View Theory and the Organizational Development Theory.

## 2.2.1 Resource Based View Theory

According to Resource Based View Theory, an organization depends on the environment for the resources required in strategy implementation (Barney, 2007). The Resource Based View emerged as a complement or dual to Porters theory of Competitive Advantage Barney & Arikan, (2001). Wernerfelt’s (1984) primary contribution to the Resource Based View literature was by recognizing that firm specific resources can be essential to organizations in order to gain advantages in implementing product market strategies.

Barney & Arikan (2001) posit that creating a strategy based on unique resources and capabilities provides more sustainable competitive advantage and performance. Resource-based theorists also seek to distinguish their perspective on sustained superior performance from that of Industrial Organization economics by stressing the intrinsic inimitability of scarce, valuable resources for a variety of reasons. The ability to obtain a particular resource may be dependent on unique, historical circumstances that competitors cannot recreate; the link between the resources possessed by a firm and its sustained competitive advantage may be causally ambiguous or poorly understood or the resource responsible for the advantage may be socially complex and therefore beyond the ability of firms to systematically manage and influence, an example being culture.

Grant and Jordan (2012) postulate that competitive advantage acquired based on resources and capabilities is much more sustainable than that based on product and market portions. Consequently, the resource-based perspective has an intraorganizational focus and argues that performance is a result of firm-specific resources and capabilities. The resource-based view of the organization has gone through considerable amount of modifications and variations during the past three decades by a great number of scholars using terms such as resources, capabilities, assets and/or core competences to describe intrinsic factors that lead to a competitive advantage. According to Porter (1980), competitive advantage is cultivated out of the value a firm is able to create for its buyers that exceed the firms cost of production.

According to Johnson and Scholes (2010), an effective strategic choice positions an organization into making sustainable strategic decisions. To succeed against competition in the industry, an organization may make choices such as when, where and how to compete. In order to achieve the desired objectives, organizations should not duplicate strategies without considering the strategic fit. This expresses the degree to which an organization is matching its resources and capabilities with the opportunities in the external environment. A unique combination of resources and capabilities can eventually be developed into a competitive advantage which the company will profit from. With clear choice of strategy and strategic fit consideration, there is need to set target levels of the overall performance.

Grant (2012) observed that, it is the potential for differentiation strategy which exists on the demand side that influences the action to be taken by the supply side. Pursuit of generic strategies can lead to superior performance. According to Barney (2007), organizations have been forced to come up with competitive strategies that will deal with forces in the environment in order to gain a superior advantage in terms of performance. The dominant school of thought in strategic management has been the Industrial Organization, where the relationship between the organization and the industry is essential.

According to Porter (1985) the principal model of this school is the “five competitive forces” for analyzing industry structures. In this model, an organization’s profitability is influenced by its relative size compared to its industry rivals, suppliers and customers. Accordingly, the industry forces in which the firm 20 operates requires that the firm adapts to these requirements in order to survive in the long run.

## 2.2.2. Organizational Development Theory

According to Worley & Cummings (2005) organization development is a system wide application and transfer of behavioral science knowledge to the planned development, improvement and reinforcement of strategies, structures, and processes that lead to organization effectiveness. Organizational Development Theory is a deliberate plan, organization wide effort to increase organization’s effectiveness thereby enabling the organization to achieve its strategic goal (MacKenzie & Gordon, 2016).

Consequently, this theory is based on the fact that over the long term, culture, behavior and structures enhance knowledge, productivity and customer satisfaction for optimum performance of the organization. This theory is specifically ideal for the context of this study as international schools’ performance indicators include peak customer satisfaction, rich culture, student’s wellbeing and enhanced learning and development. One of the primary goals of organizational development is to improve organizational effectiveness. This is accomplished by a bottom up approach where the culture of the organization supports improvement. This theory recognizes the dynamic environment in which organizations are based. It also upholds collaboration among the key stakeholders, a key indicator in the performance of schools which advocates for interaction and teamwork between teachers and students. Organizational Development is supposed to generate outcomes that can be evaluated and compared between organizations.

The essence of ODV is to define the goals to be reached and then to choose the means best suited to achieve the desired results. Another basic assumption is that organizations are able to learn from their own experiences.

## 2.3. Review of related literature

From the previous discussion, it follows that planning in SMEs does not always take place in a highly sophisticated or formal way. It often occurs (at least sub- or unconsciously) as a sign of strategic thinking (Ohmae 1982). In this respect, Bracker and Pearson (1986) describe SMEs’ planning activities as ranging from an unstructured and informal approach (unstructured planning, intuitive planning) to a more structured and formal approach (structured operational planning, structured strategic planning).

Therefore, it remains to be seen whether SMEs do not plan ‘strategically’ at all or whether they just do not plan ‘in a formal way’. Along these lines, Welter (2003) states that it is the quality of planning rather than strategic planning per se that plays an important role. Indeed, planning in SMEs seems to be rather unstructured, sporadic, incremental and often not formalized. This suggests a rather systemic type of thinking by the entrepreneur/entrepreneurial team which might be imprinted on the organization for years to come. The actual process of decision-making that can be observed in reality often deviates substantially from the ideal picture of rationality. To relate this to our initial definition of strategic management and planning, in this process entrepreneurs might engage too much in (informal) strategic management as vision development while neglecting ‘bread and butter’ planning (see the characterization of visionary entrepreneurs in Reschke, 2005).

In addition, it seems reasonable to assume that each form of planning, whether it is conscious or unconscious, formal or informal, positively affects entrepreneurial success. The implementation of strategic planning, therefore, seems to be favorable independent of company size, although a positive relationship between increasing company size and the implementation of (structured and formalized) instruments of strategic management appears to exist (Haake, 1987). This finding is likely to be correlated with - if not caused by - the increasing need to reduce uncertainty about an enterprise’s role in its environment and the growing ability to cope with matters in a ‘mechanistic’ fashion.

Building on these arguments, it can be assumed that people in most SMEs think strategically. A conscious or formal strategic process, however, mostly takes place in the head of a very limited number of employees.

Due to the well-accepted view that strategies limit an SME’s scope of activity too much, thereby reducing its flexibility, many SMEs are still lacking written strategicplans (Pleitner, 1986). In addition, there are other reasons that may explain why SMEs refuse to engage in formal strategic planning, such as insufficient knowledge, distrust, rejection of external assistance, tradition-based thinking, fear of radical change, high costs and lack of time or management overload (Scharpe, 1992; Robinson & Pearce, 1984). In this regard, Gibb and Scott (1985) are of the opinion that strategic awareness and the involvement of the entrepreneur offsets the lack of formal strategic planning as an output of strategic management. The degree of an entrepreneur’s strategic orientation thus seems to be a key factor for the strategic focus of the enterprise (Mazzarol, 2003).

## 2.4. Conceptual frame work

According to Creswell (2014). conceptual framework reflects the relations among concepts or variables that the student will analyze in order to achieve the stated objectives of the study. A conceptual framework occurs when a researcher links concept from literature to establish evidence to support the need for the research question. If somebody else has already linked these concepts with valid research, they made a theoretical framework which can be used as a readymade map for researchers to guide their own research questions. A clear conceptual framework should be developed and presented as a last section in this chapter.

The research presented the conceptual framework of the study showing the relationship between

the study variables.

**Figure 2.1: Conceptual framework**

**Dependent Variable**

**Independent Variable**

**Financial Performance**

* Profitability ratios:
* ROA
* ROE
* Liquidity ratios
* Current ratio
* Quick ratio

**Business Strategies**

* Focus strategy
* Differentiation strategy
* Cost leadership

**Source:** **compiled by the researchers, 2021**

## 2.5. Summary and Research Gaps

Study of literature has exposed various conceptual, contextual and methodological gaps particularly in the relationship between business strategies and financial performance. These gaps relate to context, concept and methodologies. The conceptual gaps are identified in literature regarding the relationship between the concepts under this study. The contextual gaps relate to manufacturing company in Rwanda and the methodological gaps are identified in sample size, population and research design. This chapter presented the contextual, conceptual and theoretical framework of the study. It shows the relationship between the three business strategies and financial performance and the existence of knowledge gaps in this subject. Overall, it describes the business strategies, theories and the conceptual framework and provides the linkages of the three aspects in view of the hypothesis.

## CHAPTER THREE

## RESEARCH DESIGN AND METHODOLOGY

## **3.0 Introduction**

## This chapter was present the methodology that was used in carrying out this study. It was focused on the research design, sources of data, study population, sampling designs, sample size data collection methods and tools, data presentation, processing and analyses that was used by the researcher

## **3.1 Research design**

A descriptive survey research design was used as it allows obtaining the same kind of data  
from a large group of people in a standard and systematic way (Mugenda & Mugenda,  
1999). The study is a quantitative in nature whereby the relationships between independent  
and dependent variables were established.

## **3.2 Target Population**

Population is the sum of all units of analysis. It is a group or category of human being,  
animals and other things that have one or more characteristics in common as the target  
population of the study. Population is a set of cases about which one wishes to draw some  
conclusions (Bailey& Pearson, 1983). The target population of the study was selected  
staff operating in commercial department of RULIBA CLAYS.

## **3.3 Sample Design** **3.3.1 Sample Size** The sample size of the study composed on 36 staff operating in commercial department. Staff included; inventory officer, sales and marketing and managers, within RULIBA CLAYS.

# Table 3.1: Sample Size

|  |  |  |
| --- | --- | --- |
| **Departments** | **Number of Respondents** | **Percentage** |
| Inventory officers | 13 | 36 |
| Sales and marketing officers | 20 | 55.5 |
| Finance Managers | 3 | 8.3 |
| **Total** | **36** | **100** |

**Source: Primary data (2021)**

# **3.3.2 Sampling Technique**

Purposive sampling technique was used to determine the staff to be included in the study.  
Purposive sampling will be based on the researcher’s judgment that the selected sample  
population would be adequate for the study.

3.3 Data Collection techniques

## Data collection procedure specifies the details of the task while emphasizing the data obtained and its sources. The research used both primary and secondary data. Primary data was collected through administration of structured questionnaires in which a Likert Scale was used. Structured questionnaires are important data collection tools that are used to collect quantitative data (Cohen, Manion, & Morrison, 2007).

## Unlike mailed questionnaires, self-administered questionnaires have a higher response rate which made them the ideal choice for use in this study (Prakash, 2014). Other advantages include ease of designing the instrument, ability to save time and ability to analyze quantitatively (Harper & Thompson, 2011).

## They participants were issued with the research questionnaire and requested to complete. Once they had finished filling the questionnaire, the researcher collected these questionnaires for evaluation and analysis. Secondary data was collected from the organization’s websites and internal documents. The questionnaire featured both open and close ended questions and was the primary data collection tool. This approach provided more structured responses to facilitate tangible recommendations.

# **3.4 Validity and Reliability**

Mugenda and Mugenda (2003), state that validity is the accuracy and meaningfulness of data collection tools. The researcher approached three international schools’ heads and requested them to complete the initial questionnaire for purposes of pretesting. These were identified randomly. After receiving the responses, the questionnaire was further analyzed and the open-ended questions that were perceived to have little impact on the questionnaire eliminated. Additionally, other questions that were unclear were also rephrased or eliminated altogether. Face validity was used and this involved passing the questionnaire to the supervisor who identified and removed other variables that were not necessary. Reliability was then tested using Cronbach’s alpha in SPSS. The tendency towards consistency found in repeated measurements of the same phenomenon is referred to as reliability. Internal consistency refers to the extent to which all of the items in a scale measure the different aspects of the same attribute (Bukenya et al., 2017).

Cronbach's alpha is often used in assessing the reliability of tests for knowledge on the issue, with questions that have more than two possible responses (Deniz & Alsaffar, 2013).

# 3.4.1. Reliability test findings

Cronbach’s alpha test was used to test for reliability and of the study instrument. Cronbach’s alpha value indicate the internal consistency of the various measures that were used and the reliability of the study instrument. Various authors provided different interpretations of the Cronbach’s alpha results (Assari, Lankarani, & Tavallaii, 2009). However, values between 0.8 and 0.9 are considered excellent, 0.7 to 0. 8 are considered good, 0.6 to 0.7 are considered acceptable while values below 0.6 are considered questionable, poor and unacceptable (Liu et al., 2016).

In this study, Chronbach’s alpha was used to test the reliability of the study instrument. A total of 36 measures were included in the statistical analysis software. Findings of the analysis are indicated in Table 3.2, 3.3 below.

# Table 3.2: Case Processing Summary

N %

|  |  |  |  |
| --- | --- | --- | --- |
| Cases | Valid | 35 | 97.2 |
| Excludeda | 1 | 2.8 |
| Total | 36 | 100.0 |

a. Listwise deletion based on all variables in the procedure.

Source: Field data (2021)

# Table 3.3. Reliability Statistics

|  |  |
| --- | --- |
|  | |
| Cronbach's Alpha | N of Items |
| .603 | 36 |

Source: Field data (2021)

From the above table, Cronbach’s alpha is 0.603 that indicates a moderate level of internal consistency for the scale with this specific sample. Studies have shown that values above 0.6 are considered acceptable, while values above 0.7 are considered good. This was important for this study because it indicated that the instrument was reliable. Deniz & Alsaffar (2013) indicates that Cronbach's alpha ranges from r=0 to 1, with r=0.7 or greater considered as sufficiently reliable. This study is built on this interpretation as the decision point for conducting the analysis.  
**3.5.** Data Processing

Data collected was changed into meaningful information for easy interpretation and understanding. It will be done through various forms such as texts, tables, and figures. The different techniques were used such as editing, coding, tabulation. The following procedures was used:

# 3.5.1. Editing

This process involved checking and examining the collected data from the field so as to detect the errors and eliminate them if possible to ensure consistence of the data with the study variables (Kenneth, 1978). This means the process whereby errors in questionnaires are identified and corrected. The researcher will edit all questionnaires after collecting date. Editing will be intended to correct errors in the completed questionnaire. Note that some questionnaires may be answered in Kinyarwanda language and so they have to be translated into English language.

# 3.5.2 Coding

Coding is the process of classifying the answers to the questions into a meaningful category. The symbols were used to indicate these categories and will be called codes. Coding was necessary to carry out the subsequent operations of tabulating and analyzing data. When coding was not be used it was become difficult to turn a number of heterogeneous responses into meaningful categories, thus the result of data analysis could be ineffective and without proper focus (Kothari, 1990). Coding therefore will involve specifying the different categories or classes into which responses will be classified.

# 3.5.3. Tabulation

In this context, once data was edited, then these data was putting together in the same kind of tables and subjected to some other forms of statistical presentations. That is to say, these tables was used to analyze the data in simple quantitative form where by the number of occurrences of responses to particular questions was collected and analyzed using percentage to make them easily understandable. Tabulation therefore was comprised of sorting of data into different parts and counting the number of cases that belong to each part. After that, the data in the table was summarized in form of words.

# **3.6. Data Analysis methods**

After data collection, a thorough check was done to ascertain information captured. Sorting and coding were then done on the data. The data was sorted by ensuring that each of the questions in the questionnaire had been answered and the incomplete questionnaires removed. Coding was done by assigning codes to the different research questions on the questionnaire in SPSS so as to identify the different variables. Individual measures of each variable were then combined to form the independent and dependent variables. Thereafter, the data was then analyzed using SPSS statistical software version 24 for analysis.

Quantitative data was analyzed by use of descriptive statistics i.e. percentages, means, frequencies and standard deviation. On the other hand, hypotheses testing was done using simple and multiple linear regression analysis tests.

The information was presented using frequency tables and in prose-form. In the process of analyzing the hypotheses using regression analysis, the p value was considered at 0.05 level. Therefore, a p value of less than 0.05 was considered significant, accepting the hypothesis, and that above this level was considered not significant and hence rejecting the hypothesis.

# **3.7. Ethical considerations**

To guarantee confidentiality, the respondents were not required to disclose their identities on the research instrument. Only the researcher had access to the completed questionnaires. Additionally, no personal data from the participants was collected to enhance their privacy. Also, anonymity was guaranteed for the study participants by ensuring that their responses and information was kept anonymous.

## CHAPTER FOUR

## DATA ANALYSIS, PRESENTATION AND INTERPRETATION

## 4.0. Introduction

This chapter is about presentation analysis, interpretation and discussion on results that were collected for the research study using a purposive sampling in order to respond the objectives of this study. The results that are presented were collected using primary and secondary data. The analysis was done using the statistical techniques that include percentage, frequency, mean, standard deviation and correlation test was used to measure the relationship between variables. The presented data in this chapter are divided into two sections.

## 4.1. Demographic analysis

This section examined the demographic details of the study participants. Participants were requested to identify their gender, age group, years worked at RULIBA CLAYS. The findings are indicated in the tables 4.1, 4.2 and 4.3 below:

## Table 4.1: Gender of the Respondents

|  |  |  |
| --- | --- | --- |
| **Gender** | **Frequency** | **Percentages** |
| Men | 23 | 63.9 |
| Women | 13 | 36.1 |
| Total | 36 | 100 |

Source: Field data, 2021

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Table 4.2: Age of Respondents  |  |  |  | | --- | --- | --- | | **Age** | **Frequency** | **Percentages** | | Below 30 | 4 | 11.1 | | Between 31-40  Between 41-50  Between 51-60 | 12  11  9 | 33.3  30.6  25 | | Total | 36 | 100 |   Source: Field data, 2021 Table 4.3: Working Experience  |  |  |  | | --- | --- | --- | | **Working experience** | **Frequency** | **Percentages** | | Below 3 years | 6 | 16.7 | | Between 3-10  Above 10 years  Total | 16  11  36 | 42.7  30.6  100 | |  |  |  |   Source: Field data, 2021 |

The results in tables 4.1, 4.2 and 4.3 above indicated that, 64 percent of the participants were male while 36 percent of the participants were female. 11 percent were aged below 30 years, 33 percent were aged between 31 and 40, 31 percent were aged between 41 and 50, 25 percent were aged between 51 and 60 years. Lastly, 17 percent had worked for less than 3 years, 43 percent between 3 and 10 years, and 40 percent above 10 years. Based on these findings a large number of the participants were male over 40 years of age with more than 3 years of experience, an aspect that is expected in the RULIBA CLAYS work environment.

## 4.2. Research Findings

In this section, the researcher considers the views of respondents selected in order to achieve the objectives of the study, in analyzing the effect of business strategies on the financial performance within RULIBA CLAYS.

## 4.2.1. Business Strategies used by RULIBA CLAYS

In analyzing the first specific objective of the study, the researcher sought to find out the effectiveness of Business Strategies used by RULIBA CLAYS. The results on each element of business strategies are presented in the following table:

## Table 4.4. Focus strategies on Financial performance of RULIBA CLAYS

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Descriptive Statistics | | | | | |  |
|  | N | Min | Max | Mean | Std.Deviation | CV |
| RULIBA CLAYS has focused on providing quality product to specific market segments. | 36 | 3 | 5 | 4.25 | 0.649 | 15.27 |
| RULIBA CLAYS has differentiated products so as to provide unique quality  for a particular niche of cutomers. | 36 | 1 | 21 | 3.3333 | 3.233 | 97.01 |
| The value of services is comparable to that of competitors | 36 | 1 | 4 | 2.8889 | 0.784 | 27.17 |
| RULIBA CLAYS has intentional about innovation and investment to remain an authority in this market segment. | 36 | 2 | 5 | 3.75 | 0.937 | 25.00 |
| The uniqueness of RULIBA CLAYS product is not  influenced by cost. | 36 | 2 | 5 | 3.8056 | 0.821 | 21.60 |
| RULIBA CLAYS competitive advantage in this  segment has been in place more than three years | 36 | 1 | 5 | 3.5556 | 1.106 | 31.13 |
| The potential market share of RULIBA CLAYS is increased due to high quality services | 36 | 2 | 5 | 3.4722 | 0.810 | 23.33 |
| RULIBA CLAYS is intentional about lower fees  as compared to the market. | 36 | 3 | 5 | 4.6667 | 0.534 | 11.45 |
| RULIBA CLAYS exploits all potential cost  drivers to increase efficiency. | 36 | 1 | 5 | 3.2778 | 0.974 | 29.72 |
| RULIBA CLAYS cost of operation is below the  funds generated from fees. | 36 | 1 | 4 | 2.6944 | 0.709 | 26.35 |
| Valid N= | 36 |  | | | | |

**Source: Field data, 2021**

The findings in the table above indicate that the average mean of the responses for all the variables was 3.4. This means that a majority of the respondents agreed on the existence of RULIBA CLAYS LTD implementation of focus strategies. The standard deviation on the other hand was highest for 3 measures but mostly remained at an average of 0.8. The higher deviation indicates the outliers could be explained by the younger or newly employed staff that may not have had a clear understanding of what strategy the business RULIBA CLAYS had adopted.

## Table 4.5: Differentiation strategy on financial performance of RULIBA CLAYS

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Descriptive Statistics | | | | | |  |
|  | N | Min | Max | Mean | Std. Deviation | CV |
| RULIBA CLAYS service to the customers meets international standards as stipulated in Accreditation bodies. | 36 | 1 | 5 | 2.5 | 1.13389 | 45.36 |
| All the staff in RULIBA CLAYS have  the required qualifications. | 36 | 2 | 5 | 3.6111 | 0.90326 | 25.01 |
| The quality of staff meets  accreditation standards. | 35 | 3 | 5 | 4.4857 | 0.78108 | 17.41 |
| The customers enrolment in RULIBA CLAYS  meets its annual targets. | 36 | 1 | 5 | 2.75 | 1.07902 | 39.24 |
| RULIBA CLAYS is able to meet its financial obligations annually. | 36 | 2 | 5 | 3.5 | 1.10841 | 31.67 |
| RULIBA CLAYS has a reserve fund to cater for emergencies. | 36 | 1 | 5 | 3.4444 | 1.15745 | 33.60 |
| RULIBA CLAYS financial management adheres to International Financial Reporting Standards. | 36 | 2 | 5 | 4 | 0.82808 | 20.70 |
| RULIBA CLAYS facilities and equipment’s are upgraded against the company set standards. | 36 | 2 | 5 | 3.94444 | 0.86005 | 21.80 |
| RULIBA CLAYS has strong leadership that is continually involved in governing,  planning and management. | 36 | 1 | 5 | 3 | 1.24212 | 41.40 |
| RULIBA CLAYS services results are credible and competitive internationally. | 36 | 3 | 5 | 4.1944 | 0.57666 | 13.75 |
| RULIBA CLAYS staff are motivated. | 36 | 2 | 5 | 3.4444 | 0.80868 | 23.48 |
| Valid N =36 |  | | | | | |

**Source: Field data, 2021**

This was measured by a total of 11 measures on a five-point Likert scale. Table 4.5 shows the findings of the analysis using measures of central tendency. The findings in Table 4.5 show that the average mean of all the 11 measures is 3.7. This means that a majority of the participants responded in the affirmative, indicating improvements in performance. However, the standard deviation was large for the individual measures averaging 0.9 which indicates a large difference between those who agreed and those who disagreed. This could also be an indication of outliers emerging from the lack of knowledge of the overall financial performance of RULIBA CLAYS as some of the statistics may not be readily available for the staff members.

## 4.2.2 Analysis of level of financial performance of RULIBA CLAYS

The performance indicators of RULIBA CLAYS improved year by year depending the environment and objectives of the bank. To analyze the performance of RULIBA CLAYS, its better first to present the evolution of each indicators to see if the increase or decrease in time frame of year to year, these include Deposit, Net income, Loan granted , Asset and Asset Quality Ratio(AQR).

## 4.2.2.1. Comparative statement analysis of current Assets and current liabilities

The item-by-item comparison of two or more comparable alternatives, processes, products, qualifications, sets of data, systems, or the like. In accounting, for example, changes in a financial statement's items over several accounting periods may be presented together to detect the emerging trends in the company's operations and results. The following table presents also comparability analysis.

## Table 4.6: Comparative summary of statement analysis of RULIBA CLAYS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Period** | **2016 (000 Rwf)** | **2017 (000 Rwf)** | **2018 (000 Rwf)** | **2019 (000 Rwf)** |
| Current assets | 39,476,144 | 40,186,527 | 41,853,000 | 32,989,000 |
| Current liabilities | 63,117,898 | 57,295,213 | 64,982,000 | 63,913,000 |
| Total assets | 131,740,315 | 127,728,532 | 131,801,000 | 121,741,000 |
| Total equity | 31,638,250 | 35,690,923 | 39,077,000 | 34,611,000 |
| Net income | 1,397,836 | 5,078,741 | 7,242,000 | 1,192,000 |
| Net operating income | 12,128,417 | 14,706,438 | 18,441,000 | 10,667,000 |

**Source: Secondary data , 2021**

## 4.2.2.2. Profitability ratios

Profitability is the primary goal of all business ventures, without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important. Profitability ratios are financial metrics that measure how the organization is profitable compared to the investment of that organization. Therefore, in this research researcher measured the profitability of RULIBA CLAYS through the return on asset, return on equity and profit margin.

# 1. Return on asset

This section, the researcher point out the Return on Assets of RULIBA CLAYS during covered period 2016 up to 2019.

ROA=

## Table 4.7: Return on asset (ROA)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Items** | **2016**  **(Frw’000)** | **2017**  **(Frw’000)** | **2018**  **(Frw’000)** | **2019**  **(Frw’000)** |
| Net income | 1,397,836 | 5,078,741 | 7,242,000 | 1,192,000 |
| Total asset | 131,740,315 | 127,728,532 | 131,801,000 | 121,741,000 |
| ROA | 1.06% | 4% | 5.5% | 1% |

**Source: Secondary data , 2021**

The table 4.7 presents the return on asset of RULIBA CLAYS during the covered period. This means that for 100 Frw invested in assets, RULIBA CLAYS has generated a certain benefit, in this case the information driven by the table shows that in 2016 for 100rwf was invested in assets RULIBA CLAYS has generate 1.06 %, RULIBA CLAYS has generated a certain benefit, in this case the information driven by the table shows that in 2017 for 100rwf was invested in assets RULIBA CLAYS has generate 4 %, in 2018 RULIBA CLAYS has generate 5.5% for 100rwf was invested in assets. RULIBA CLAYS has generated a certain benefit 1% for every 100 Rwf was invested in assets. This means that during the covered period RULIBA CLAYS had good financial performance. It only makes sense that a higher ratio is more favorable to investors because it shows that the organization is more effectively managing its assets to produce greater amounts of net income. A positive ROA ratio usually indicates an upward profit trend as well.

# 2. Return on equity

This ratio of return on equity measure the profit generated by Frw100 of equity investment.

ROE=

## Table 4.8: Return on equity

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Items** | **2016**  **(Frw’000)** | **2017**  **(Frw’000)** | **2018**  **(Frw’000)** | **2019**  **(Frw’000)** |
| Net income | 1,397,836 | 5,078,741 | 7,242,000 | 1,192,000 |
| Total equity | 31,638,250 | 35,690,923 | 39,077,000 | 35,690,923 |
| ROE | 4.4% | 14.2% | 18.5% | 3.3% |

**Source: Secondary data , 2021**

According to the Table 4.8, shows that the return on equity of RULIBA CLAYS managed to generate 4.4% in 2016, 14.2% in 2017, 18.5% in 2018 and 3.3% in 2019.

Return on equity of this company decreased over the period of 2016-2019 but in 2018 the company reported an increase of ROE from 4.4% in 2018 to 14.2% in 2019 this was caused by the fact that RULIBA CLAYS invested heavily in equities during that period. This ratio was calculated using the net income of RULIBA CLAYS, so this means, because the income of this company is generated mainly by the revenue from the sales and this where the shares issued by RULIBA CLAYS on ROE play a significant role because this facilitate the company to reduce the interest the company could have paid if it used the loans to finance its activities thus the company managed to retain a high net income.

# 3. Profit margin

This ratio measures the income (profit) generated by Frw1 of operations effectuated by company. This is the best indicator of the organization’s efficiency because net profit takes into consideration all expenses of the company. Investors want the net profit margin to be as high as possible.

NPM

## Table 4.9: Net profit margin ratio

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Items** | **2016**  **(Frw’000)** | **2017**  **(Frw’000)** | **2018**  **(Frw’000)** | **2019**  **(Frw’000)** |
| Net income | 1,397,836 | 5,078,741 | 7,242,000 | 1,192,000 |
| Operating income | 12,128,417 | 14,706,438 | 18,441,000 | 10,667,000 |
| Net profit margin | 11.5% | 34.5% | 39.3% | 11.2% |

**Source: Secondary data, 2021**

This company managed to get profit from the money invested in asset during the period of this research. Where the net proft margin were respectively; 11.5%,34.5%, 39.3% and 11.2% in 2016,2017,2018, 2019, all this has been achieved through the combined strategies adopted by RULIBA CLAYS regarding the investment in share market. The return on assets ratio measures how effectively a company can earn a return on its investment in assets.

From the result profit it is clear that the return on equity of this company decreased over the period of 2016-2017 but in 2019 the company reported an increase of net profit margin from 11.5% in 2016 to 34.5% in 2017 this was caused by the fact that RULIBA CLAYS invested heavily in equities during that period. Unlike the gross profit which measures the operating efficiency of the business, net profit margin measures the overall efficiency of the business. An adequate margin of net profits is generated only when most of all the activities are being done efficiently because of implemented of business strategies.

## 4.2.2.3. Financial Health using the Z-score Model

The study sought to find out the outcome of Z-score model in each period. The model was used to examine financial health of the firm expressed as a mathematics expression that involved in terms of the following financial ratios, a= working capital / total assets, b= retained earnings / total assets, c= earnings before interest and tax / total assets, d= market value of equity / total liabilities was used to measure financial health using z-score model, (McCallum (2010) Z-score= Z-Score = 1.2a + 1.4b + 3.3c + 0.6d). This was used to define the firm’s success and failure to bankruptcy potentiality in year of operations.

## 1. Working Capital/Total Assets

Working capital is the difference between the current assets of a company and its Current liabilities are financial obligations of a business entity that are due and payable within a year. A company shows these on the. The value of a company’s working capital determines its short term financial health.

A positive working capital means that a company can meet its short-term financial obligations, and still make funds available to invest and grow. In contrast, negative working capital means that a company will struggle to meet its short-term financial obligations because there are inadequate current assets.

## Table 4.10. Working capital of RULIBA CLAYS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Period** | **2016** | **2017** | **2018** | **2019** |
| Current assets | 39,476,144 | 40,186,527 | 41,853,000 | 32,989,000 |
| Current liabilities | 63,117,898 | 57,295,213 | 64,982,000 | 63,913,000 |
| **Working capital** | **0.6** | **0.7** | **0.64** | **0.52** |

**Source: Field data, 2021**

The table above shows the measure short-term financial health and liquidity of RULIBA CLAYS where were presented respectively; 0.6%, 0.7%, 0.64%, 0.52%. This implies that RULIBA CLAYS has the capability of managing its short-term financial health and liquidity during the research period.

## 2. Retained Earnings/Total Assets

The retained earnings/total assets ratio shows the amount of retained earnings or losses in a company. If a company reports low retained earnings to total assets ratio, it means that the company is financing its expenditure using borrowed funds rather than funds from its retained earnings.

It increases the probability of a company going bankrupt. On the other hand, some high retained earnings to total assets ratio shows than a company uses its retained earnings to fund capital expenditure. It shows that the company achieved financial performance over the years, and it does not need to rely on borrowings.

## Table 4.11. Retained Earnings/Total Assets of RULIBA CLAYS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Period** | **2016** | **2017** | **2018** | **2019** |
| Net income | 1,397,836 | 5,078,741 | 7,242,000 | 1,192,000 |
| Total assets | 131,740,315 | 127,728,532 | 131,801,000 | 121,741,000 |
| Retained earnings | 1.06% | 4% | 5.5% | 1% |

**Source: Field data, 2021**

The table above shows the measure long-term liquidity risk and solvency of RULIBA CLAYS where, the figures were presented respectively 1.06%, 4%, 5.5% and 1%. This implies that RULIBA CLAYS has the capability of managing its long-term liquidity risk and solvency during the research period.

## 3. Earnings before Interest and Tax/Total Assets

EBIT, a measure of a company’s financial performance, refers to the ability of a company to generate profits solely from its operations. The EBIT/Total Assets ratio demonstrates a company’s ability to generate enough revenues to stay profitable and fund ongoing operations and make debt payments.

## Table 4.12 Retained Earnings/Total Assets of RULIBA CLAYS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Period** | **2016** | **2017** | **2018** | **2019** |
| Net income | 1,397,836 | 5,078,741 | 7,242,000 | 1,192,000 |
| Total assets | 131,740,315 | 127,728,532 | 131,801,000 | 121,741,000 |
| ROE | 4.4% | 14.2% | 18.5% | 3.3% |

**Source: Field data, 2021**

The above table shows the ability of RULIBA CLAYS to generate profits solely from its operations during the research period where were presented respectively; 4.4%, 14.2%, 18.5% and 3.3%. This implies that RULIBA CLAYS has the capability of generating the profits solely from its operations and measure long-term financial health and solvency during the research period.

## 4. Market Value of Equity/Total Liabilities

The market value, also known as Market Capitalization Template, this market capitalization template helps you differentiate between market capitalization and enterprise value. Market Capitalization (Market Cap) is the most recent market value of a company’s outstanding shares. The Market Cap is equal to the current share price multiplied by the number of shares outstanding.

The inv, is the value of a company’s equity. It is obtained by multiplying the number of outstanding shares by the current price of stocks. The market value of the equity/total liabilities ratio shows the degree to which a company’s market value would decline when it declares bankruptcy before the value of liabilities exceeds the value of assets in the balance sheet. A high market value of equity to total liabilities ratio can be interpreted to mean high investor confidence in the company’s financial strength.

## Table 4.13. Market Value of Equity of RULIBA CLAYS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Period** | **2016** | **2017** | **2018** | **2019** |
| Total equity | 31,638,250 | 35,690,923 | 39,077,000 | 34,611,000 |
| **Total liability** | 131,740,315 | 127,728,532 | 131,801,000 | 121,741,000 |
| **Retained earnings** | 24 | 27.9 | 29.6 | 28.4 |

**Source: Field data, 2021**

The above table shows the market value of equityof RULIBA CLAYS during the research period where were presented respectively; 24%, 27.9%, 29.6% and 28.4%. This implies that RULIBA CLAYS the degree to which a company’s market value would decline when it declares bankruptcy before the value of liabilities exceeds the value of assets in the balance sheet. A high market value of equity to total liabilities ratio can be interpreted to mean high investor confidence in the company’s financial strength

## 4.2.3. Relationship between business strategies and RULIBA CLAYS financial performance

The relationship between business strategiesand financial performance of manufacturing companies statistically tested using Pearson’s correlation matrix. The results obtained are shown in table below:

## Table 4.14: Statistical test using Pearson’s correlation matrix

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
|  | | | **Business strategies** | **Financial performance of manufacturing companies** |
|  | **Business strategies** | Correlation Coefficient | 1,000 | ,609\*\* |
| Sig. (2-tailed) | ,000 |  |
|
| **Financial performance of RULIBA CLAYS** | Correlation Coefficient | ,609\*\* | 1,000 |
| Sig. (2-tailed) | ,000 | . |
|
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | | |

A strong positive relationship (r=.609\*) was established because .609 is close to 1, implying that a positive relationship that was significant at 0.01 level existed between business strategies and financial performance of manufacturing companies

Furthermore, Net profit margin RULIBA CLAYS measures the overall efficiency of the business strategies implemented by RULIBA CLAYS. An adequate margin of net profits is generated only when most of all the activities of the company are being done efficiently. In the case of our research, RULIBA CLAYS has implemented the necessary business strategies to increase the volume of the sales due to marketing strategy, in order to increase the sales revenue so that the company striving to be the low cost producer, by differentiating its line of products from those of other companies and focusing on its business.

## CHAPTER FIVE

## SUMMARY, RECOMMENDATIONS AND CONCLUSION

## 5.0. Introduction

The previous chapters have attempted to address the topic that the researchers identified as a pertinent issue. This chapter provides the summary, conclusion and suggestions about the findings of the study. The present study has essential objective to assess the role of business strategies on the financial performance of manufacturing companies in Rwanda and case study was RULIBA CLAYS. After the data collection, interpretation and analysis, the following findings were highlighted for different objectives of this study: To find out business strategies used by RULIBA CLAYS as manufacturing company and to analyze the level of RULIBA CLAYS over financial performance of the past 4 years. This was done because the researcher wanted to fetch the concrete results in her findings by analyzing the views of respondents and there after the researcher draws the general conclusion and offers suggestions to various parties.

## 5.1. Summary of findings

To achieve financial performance, RULIBA CLAYS chooses and implements the following business strategies: Product differentiation strategy, Cost leadership strategy, business focus strategy

Product differentiation strategy: In order to compete on market and achieve on its financial performance RULIBA CLAYS produces products with more valued features, such as product quality, product flexibility or reliable delivery. This differentiation strategy provides greater scope for the company to produce products with more valued, desirable features as a means of coping with its demands. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and then through product differentiation strategy RULIBA CLAYS charges a higher price for their products and high financial performance compared to competitors

Cost leadership strategy: According to RULIBA CLAYS website, cost leadership strategy used as having the lowest per-unit cost among rivals in highly competitive industries, in which case returns or profits will be low but nonetheless higher than competitors. It could also mean having lowest cost among a few rivals where each firm enjoys pricing power and high profits.

Business focus strategy: In business focus strategy, RULIBA CLAYS concentrates on a particular buyer group, product segment, or geographical market. Whereas low cost and differentiation are aimed at achieving their objectives industry wide, the focus or niche strategy is built on serving a particular target (customer, product, or location) very well RULIBA CLAYS maximizes financial performance by striving to be the low cost producer in Rwanda’s manufacturing industry or by differentiating its line of products from those of other companies and these two approaches are accompanied by a focus of organizational efforts on a given segment of the market

With the data related to the business strategies and their role on the financial performance of RULIBA CLAYS, the first objective was achieved.

The findings from The table 4.7 presents the return on asset of RULIBA CLAYS during the covered period. This means that for 100 Frw invested in assets, RULIBA CLAYS has generated a certain benefit, in this case the information driven by the table shows that in 2016 for 100rwf was invested in assets RULIBA CLAYS has generate 1.06 %, RULIBA CLAYS has generated a certain benefit, in this case the information driven by the table shows that in 2017 for 100rwf was invested in assets RULIBA CLAYS has generate 4 %, in 2018 RULIBA CLAYS has generate 5.5% for 100rwf was invested in assets. RULIBA CLAYS has generated a certain benefit 1% for every 100 Rwf was invested in assets. The research findings also shows that shows that the return on equity of RULIBA CLAYS managed to generate 4.4% in 2016, 14.2% in 2017, 18.5% in 2018 and 3.3% in 2019.

Return on equity of this company decreased over the period of 2016-2019 but in 2018 the company reported an increase of ROE from 4.4% in 2018 to 14.2% in 2019 this was caused by the fact that RULIBA CLAYS invested heavily in equities during that period, the research findings also shows that company managed to get profit from the money invested in asset during the period of this research. Where the net proft margin were respectively; 11.5%,34.5%, 39.3% and 11.2% in 2016,2017,2018, 2019, all this has been achieved through the combined strategies adopted by RULIBA CLAYS regarding the investment in share market.

The study sought to find out the outcome of Z-score model in each period. The model was used to examine financial health of the firm expressed as a mathematics expression that involved in terms of the following financial ratios, a= working capital / total assets, b= retained earnings / total assets, c= earnings before interest and tax / total assets, d= market value of equity / total liabilities was used to measure financial health using z-score model, (McCallum (2010) Z-score= Z-Score = 1.2a + 1.4b + 3.3c + 0.6d), where the research study shows shows the measure short-term financial health and liquidity of RULIBA CLAYS where were presented respectively; 0.6%, 0.7%, 0.64%, 0.52%, the liquidiry risk shows that the measure long-term liquidity risk and solvency of RULIBA CLAYS where, the figures were presented respectively 1.06%, 4%, 5.5% and 1%. The research shows that shows the ability of RULIBA CLAYS to generate profits solely from its operations during the research period where were presented respectively; 4.4%, 14.2%, 18.5% and 3.3%, the research also shows that shows the market value of equityof RULIBA CLAYS during the research period where were presented respectively; 24%, 27.9%, 29.6% and 28.4%. With the data related to the level of financial performance of RULIBA CLAYS, the second objective was achieved due to the ratio analysis shows the profit margin of RULIBA CLAYS is on high level.

The research shows that there is a strong positive relationship (r=.609\*) was established because .609 is close to 1, implying that a positive relationship that was significant at 0.01 level existed between business strategies and financial performance of manufacturing companies. Furthermore, Net profit margin RULIBA CLAYS measures the overall efficiency of the business strategies implemented by RULIBA CLAYS. An adequate margin of net profits is generated only when most of all the activities of the company are being done efficiently. In the case of our research, RULIBA CLAYS has implemented the necessary business strategies to increase the volume of the sales due to marketing strategy, in order to increase the sales revenue so that the company striving to be the low cost producer, by differentiating its line of products from those of other companies and focusing on its business.

## 5.2. Conclusion

From the findings, response is high that the company (case study) implements its business strategies right from the beginning of the business. It is therefore fair to conclude that RULIBA CLAYS actually makes use of a financial performance due to business strategies.

The study also established a number of qualities of financial reports generated through computerized accounting. From these findings however, it is evident that reports produced through manual accounting have also got their own strengths characteristically but all the same, financial reports generated.

The researcher wanted to know the information on business strategies and financial performance of RULIBA CLAYS after getting secondary information, the researcher compared them, analyzed, interpreted them and the conclusion was in harmony with the objectives of the study and research questions. The researcher analyzed the data, the financial performance of RULIBA CLAYS from those data were shown in the tables of profitability indicators where the Return on assets and Return on equity were positive in the period of 2016 to 2016. Finally the study objectives were achieved and research questions were answered because business strategies have positive impact on the financial performance of RULIBA CLAYS.

## 5.3. Recommendations

## 5.3.1.Rwanda Government

* To make effort on Rwandan manufacturing companies development
* Strengthen the private partnership program aiming to promote Investments in companies and manufacturing activities;
* Follow up activities left by financial and/or technical supporters;

## 5.3.2.To RULIBA CLAYS

* To follow advices from innovations of RULIBA CLAYS activities and other responsible involved in company growing;
* To work in cooperative to increase collaboration, solidarity and mutuality;
* To follow and put in practice recommendations provided by business advisors

## 5.4.To future researcher

Word assessing effective risk assessment methods and techniques. It is evident that much further research into of encouragement for future research is to aid the business function in identifying and the compatibility and ultimate integration of the two evaluations procedures needs to be undertaken.

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## APPENDIX

# Part I: Demographic Information

1. **Gender**

Male [ ]

Female [ ]

1. **Age Group**

Below 30 [ ]

31-40 [ ]

41-50 [ ]

51-60 [ ]

Above 60 [ ]

1. **Working Experience**

Between 0-3 [ ]

Between 3-10 [ ]

Above 10 [ ]

# Part II: QUESTIONS RELATED TO THE SPECIFIC OBJECTIVES

# Focus Strategy

The following statements relate to use of Focus Strategy within your organization. Please indicate the extent to which you agree/disagree with the statements. Focus strategy affects the performance of the school by:

Key: 1= Strongly Disagree; 2= Disagree;3= Not Sure; 4= Agree;5= Strongly agree

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Descriptive statements** | **1** | **2** | **3** | **4** | **5** |
| 1. | RULIBA CLAYS has focused on providing education to specific market segments. |  |  |  |  |  |
| 2. | RULIBA CLAYS targets students seeking to study in specific services |  |  |  |  |  |
| 3. | RULIBA CLAYS have differentiated our products so as to provide unique quality education for a particular niche of students. |  |  |  |  |  |

# Differentiation Strategy

1. The following statements relate to use of Differential Strategy within your organization.

Please indicate the extent to which you agree/disagree with the statements.

Key: 1= Strongly Disagree; 2= Disagree; 3= Not Sure; 4= Agree;5= Strongly agree

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Descriptive statements** | **1** | **2** | **3** | **4** | **5** |
| 1. | The value of RULIBA CLAYS is comparable to that of our competitors |  |  |  |  |  |
| 2. | RULIBA CLAYS has intentional about innovation and investment to remain an authority in this market segment. |  |  |  |  |  |
| 3. | The uniqueness of RULIBA CLAYS product is not influenced by cost. |  |  |  |  |  |
| 4. | RULIBA CLAYS competitive advantage in this segment has been in place more than three years |  |  |  |  |  |
| 5. | The potential market share of firms is increased due to high quality of services |  |  |  |  |  |

# C. Cost Leadership Strategy

The following statements relate to use of Cost Strategy within your organization. Please indicate the extent to which you agree/disagree with the statements.

Key: 1= Strongly Disagree; 2= Disagree; 3= Not Sure; 4= Agree;5= Strongly agree

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Descriptive statements** | **1** | **2** | **3** | **4** | **5** |
| 1. | RULIBA CLAYS exploits all potential cost drivers to increase  efficiency. |  |  |  |  |  |
| 2. | RULIBA CLAYS cost of operation is below the funds generated from our fees |  |  |  |  |  |
| 3. | We have separate fees charged to parents for capital expenses |  |  |  |  |  |
| 4. | Our school has improved its efficiency by controlling costs along the existing activity cost chain. |  |  |  |  |  |
| 5. | The school reinforces their services to open up a suitable cost advantage over its competitors. |  |  |  |  |  |

# APPENDICE

**FINANCIAL STATEMETS OF RULIBA CLAYS (2016-2019)**