THE SOURCES OF COMPETITIVE ADVANTAGE AND THE PERFORMANCE OF FIRMS IN THE KENYA SUGAR INDUSTRY

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

By
Dulo, Gershon Angado
D/61/P/8771/01

A Management Research Project Report Submitted in Partial Fulfillment of the Requirements of the Degree of Master of Business Administration, School of Business, University of Nairobi

October 2006
DECLARATION

I declare that this is my original work and has not been presented for the award of a degree in any other university. No part of this work may be used without prior permission of the University of Nairobi or the author.

Signed: Gershon Angado Dulo D/61/P/8771/01

Date: 2/11/06

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

This research project has been produced by my permission as the university supervisor

Signed: Dr. Martin Ogutu

Date: 3rd/11/2006

Department of Business Administration,
School of Business,
University of Nairobi
DEDICATION

This research project is dedicated to my three children: Stella, Doris and Derrick.
ACKNOWLEDGEMENTS

I wish to take this opportunity to express my deep heartfelt gratitude to social friends, professional colleagues and the academic fraternity of the faculty of commerce, University of Nairobi, for constantly challenging my intellectual capability and pressurizing me to complete the MBA course and project despite my extremely business work schedule.

My very sincere thanks and appreciation goes to my children, Stella, Doris and Derrick for their patience, understanding and sacrifice during the trying moments of the study when I was away from home.

The staff of Adaptive management consultants and Gadman Advertising also deserve commendation for their support in providing the right work environment. Their support which came in many form proved extremely valuable in meeting both the business and academic tight deadlines.

Finally, I wish to convey my sincere thanks and appreciation to my supervisor, Dr Martin Ogutu for his patience, devotion, and encouragement throughout my long tough journey to the Promised Land.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declaration</td>
<td>ii</td>
</tr>
<tr>
<td>Dedication</td>
<td>iii</td>
</tr>
<tr>
<td>Acknowledgement</td>
<td>iv</td>
</tr>
<tr>
<td>List of tables</td>
<td>vii</td>
</tr>
<tr>
<td>List of figures</td>
<td>viii</td>
</tr>
<tr>
<td>Abstract</td>
<td>ix</td>
</tr>
</tbody>
</table>

## CHAPTER ONE: INTRODUCTION

1.1 Background ................................................................. 1
1.1.1 Competitive advantage ............................................... 6
1.1.2 Sources of competitive advantage .................................. 7
1.1.3 Competitive strategies ................................................ 9
1.1.4 Competition in the Kenyan sugar industry .......................... 11
1.2 Statement of the Problems .............................................. 15
1.3 Research objectives .................................................. 17
1.4 Importance of the study ............................................... 19

## CHAPTER TWO: LITERATURE REVIEW

2.1 The concept of competitive advantage .................................. 19
2.2 The value chain and competitive advantage .......................... 21
2.3 Classification of sources of competitive advantage .................. 22
2.3.1 The classification of the sources of competitive advantage ....... 22
2.3.2 The external sources of competitive advantage ................... 23
2.3.3 The internal sources of competitive advantage ................... 24
2.4 How the firm’s resources determine its performance ............... 26
2.5 Strategy and the performance of the firms ........................ 27
2.5.1 Generic strategies .................................................. 28
2.5.2 Choosing the right strategies ...................................... 31
2.5.3 Operationalizing the chosen strategy ............................. 34

## CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design ......................................................... 35
3.2 Population of interest .................................................. 35
3.3 Data collection .......................................................... 36
3.4 Data analysis ............................................................ 36

## CHAPTER FOUR: DATA ANALYSIS AND THE FINDINGS

4.1 Organizational profile ................................................ 37
4.2 Sources of competitive advantage for firms in the sugar industry. 40
4.3 Challenges facing firms in the sugar industry ...................... 42
4.4 Main strategies used by the firms to compete ....................... 44
4.5 Sources of competitive advantage and the performance of sugar firms. 46
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary, conclusions and recommendations 49
5.2 Limitations of the study 53
5.3 Recommendations for further Research 53
5.4 Implication for policy and practice 53

References 55
Appendix i: Letter of introduction 61
Appendix ii Questionnaire 62
Appendix iii Results on company performance 66
LIST OF TABLES

Table 4.1: Internal sources of competitive advantage ........................................ 42
Table 4.2: Main opportunities for firms in the Kenyan sugar industry .................. 43
Table 4.3: Main strategies used by sugar firms to compete against foreign rivals ...... 45
Table 4.4: Key strategies used by local firms to compete among themselves .......... 46
Table 4.5: Significance Tests between sources of competitive advantage and net profit ................................................................. 48
<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Classification of sources of Competitive Advantage</td>
<td>25</td>
</tr>
<tr>
<td>2.2</td>
<td>Three Generic Strategies</td>
<td>30</td>
</tr>
<tr>
<td>4.1</td>
<td>Main sources of the competitive advantage of firms in the Kenyan Sugar Industry</td>
<td>41</td>
</tr>
<tr>
<td>4.2</td>
<td>Main threats to firms in the Kenyan sugar industry</td>
<td>44</td>
</tr>
<tr>
<td>4.3</td>
<td>Mean sales performance and net profit for the last three years</td>
<td>47</td>
</tr>
<tr>
<td>4.4</td>
<td>Mean Production Output (Tons) For 3 Years</td>
<td>66</td>
</tr>
<tr>
<td>4.5</td>
<td>Mean percentage market share for 3 years</td>
<td>66</td>
</tr>
</tbody>
</table>
ABSTRACT

Hyper competition which is virtually present in all markets and industries is a major threat to the long term survival and prosperity of small and large firms. The sugar firms just like their counterparts in other parts of the globe now faces intensified competition after years of relatively low competition following the opening of the country floodgate to cheap sugar imports. These firms can however ward-off growing competition by developing sustainable competitive advantage for guaranteed exceptional performance in the long haul. But building competitive advantage depends largely on having the right sources of competitive advantage because it’s the sources of competitive advantage that directly determine the performance of a firm.

A study of the sources of competitive advantage and the performance of the firms in the Kenyan sugar industry was thus undertaken on the basis of three key objectives, namely: to determine the main sources of competitive advantage for the firms in the Kenyan sugar industry; determine the type of competitive strategies used by the firms and finally to determine the relationship between the sources of competitive advantage and the performance of the firms. Data for the study was collected through semi-structured questionnaires administered through drop and collect later method to the six chief executives of the Kenyan Sugar Firms.

The census survey study that combined secondary and primary data established that human resources, cane crushing capacity and prudential financial management [financial capabilities] were the most important sources of competitive advantage for firms in the Kenyan Sugar Industry. The value of these resources in tapping abundant opportunities in both the domestic and external markets is enormous. Fertile land and better market prospects are some of the opportunities available to all the firms in the sugar industry for improved performance. Other findings of this important study confirmed the increased use of both cost and differentiation strategies to protect the market against new entrants. Cost based strategy emerged as the most popular of all the strategies for competing against foreign firms and local rivals. Differentiation strategy is increasingly gaining popularity among the firms as a weapon for gaining customers loyalty and commitment.
to a particular brand. Finally the study findings revealed that there is a direct relationship between the sources of competitive advantage and performance of firms. The firms with the best sources of competitive advantage outperformed rivals in production output, sales and profitability. Internal sources of competitive advantage and especially human resources, prudential financial resources [financial capability] and crushing capacity had the most significant impact on performance as compared to the external sources of competitive advantage. This study finding does not mean that the external sources of competitive advantage are irrelevant in as far as their contribution to the performance of the firms is concerned. The performance of a firm is influenced by the competitive forces in the industry and the firm’s internal sources of competitive advantage.

The author recommends that firms in the Kenyan sugar industry focus on building their internal sources of competitive advantage on a long-term basis. Investment in human resources, capacity expansion and use of best world practices should be given top priority in addition to the creation of a learning organization. Over reliance on external sources of competitive advantage and especially favorable government policies is a recipe for disaster. External sources of competitive advantage merely provide a company with a temporary privileged market position but what really enhance the organization good performance in the long term are its rare, valuable, non-substitutable and imperfectly imitable resources.
CHAPTER ONE
INTRODUCTION

1.1 Background

Competitive advantage is the single most powerful weapon needed by firms to win and prosper in today’s hypercompetitive world. As a lethal weapon, competitive advantage enable firms to enjoy unassailable position in the market [Robert, 2000] through erecting barriers to small local rivals or new entrants [Greenwald and kahn, 2006]. Porter [1985] argues that competitive advantage can help firms to erect entry barriers through economies of scale, proprietary products, synergistic alliances and expected retaliation. Knowledge is considered to be one of the most significant resources [Grant, 1996]. While possession of more relevant knowledge make it easier for firms to win a competitive war [Inken and Zack, 1998], companies can in addition create competitive advantage by becoming champions at defining the pattern of successful innovation and executing against it.

Competitive advantage based on difficult to decode resources is the recipe for tackling problems caused by hyper competition. Cutthroat competition which is virtually present in nearly all markets, industries and countries across the globe is mainly driven by a multifaceted forces such as globalization, liberation, overcapacity in many industries, deregulation, privatization, new technology and blurring technological boundaries [Manning, 1998]. Intense competition from all corners of the world is unlikely to slacken but instead intensify in this and the next century [Kotter, 1996]. Corporations and countries must understand and master competition rather than ignore [Porter, 1998]
because the 21st century is fittingly described as the age of hostile competition [Manning, 1998]. Competition as the new reality in almost all aspects of life and business has taken a different dimension altogether. Hamel [2001] point out that competition is no longer between products or services but also between competing business concepts [Hamel, 2000].

Globalization and trade liberation have not only widened the market for goods and services but also accelerated competition among countries. The developed countries leadership in manufacturing and new technology is being challenged by developing countries like Brazil, China, India, and a few minnows. America leadership in everything from industry to technology is under threat. The world now fears China [Melin and Lin, 2006]: China is becoming an industrial powerhouse, India takes the lead in outsourcing of softwares, Brazil takes the slot of an agricultural powerhouse and Eastern Europe is quickly taking the lead in vehicle manufacturing and becoming the world’s newest car capital [Edmonson, 2005]. In the meantime American Boeing, long American leading exporter is losing market to European Airbus in recent years [Prestowitz, 2006].

Industries, just like countries have not escaped the brunt of hyper competition of some sort. Indeed very few industries remain in which competition has not invaded on stability and market dominance [Porter, 1998]. As a matter of fact there are no safe and secure industries. Information technology in particular has fundamentally expanded industry boundaries, leading to emergence of new industries and disintegration of old ones [Porter, 1990]. Nowhere are these changes more pronounced than in technology based and
technology driven industries. Firms competing in this and other industries with major shifts are advised to learn to compete in the future by developing new industry foresight and exercising intellectual leadership [Prahalad and Hamel, 2000].

The tectonic shifts in industries are being felt by firms as the competitive landscape undergoes some change. While new technologies are credited with new and better products, more efficient processes and systems, they are responsible for the failure and eventual death of some firms [Rastogi, 1996]. Disruptive technologies are speedily nullifying past-heavy investments by firms in new products, whose life cycles have been shortened through commoditization [Christensen, 2005]. Great companies can fail because they do everything right—great companies fail when their managers either ignore or choose to fight the principles of disruptive innovation. Unaccountable failure equally occur in industries that move fast and in those that move slow, in those built on electronics, technology and those built on chemicals and mechanical; in manufacturing and service industries [Christensen, 1997].

The pace and complexity of the new driving force for hyper competition is threatening to put the survival of firms in great jeopardy." For a company to survive and thrive from the front lines to the boardroom needs to understand and act on the nine emerging business concepts [run your business for your customers, put process first, create orders where chaos reigns, measure like you mean it, manage without structures, knockdown your outer walls, extend your enterprises, make it happen and prepare for a future you cannot predict]" states Hammer [2001]. Far few firms survive the upheavals of change and
competition [Geus, 1997] the life expectancy of most firms is on the decline. Fortune 500 companies’ life expectancy now averages between 40 and 50 years. The only exceptions to the downward slide in life expectancy are companies such as the Swedish Stora Company [believed to be around 700 years] and the built to last [Collins and Parras, 2003]. A few other adaptive firms are focusing on ensuring their survival more than growth. Survival to these firms means evolving slowly but as Godin [2002] argues, survival alone is not enough in times of turbulence. Indeed companies can avoid being in the survival lane by learning to evolve in the same way nature evolves a species and then zooms.

Companies should avoid evolving slow because those that evolve slowly are definitely on their way to corporate graveyard and eventual extinction. The increasingly complex and fast changing business environment is rendering old business models and convectional strategies irrelevant and obsolete by the day. Incumbency too, is of no significant advantage, leave alone being a ticket to guaranteed survival. Speed, flexibility, customer focus, innovation and reconceptualization of business models are the main big things in the minds of corporate leaders. Kiernan [1995] advises firms to” Get innovative or get dead”. Increased turbulence and major changes in many markets and industries is forcing organizations to re-inventing themselves by changing the rules of the game instead of operating on a survival mode. Rule makers and breakers at least enjoy first mover advantage in a new market. Setting new rules of the game imply or involve defining new ways of doing things, building new capabilities, setting and new standards of customer satisfaction[Hamel,2002].
Changing the rules of the game is an effective way of erecting solid barriers to competition: 'a company that successfully changes the rules of engagement can easily develop unassailable position [Robert, 2000] in the industry. Changing the rules of the game works pretty well in nearly all businesses and beside it effectively leave competitors in a gut-wrenching quandary [Hamel, 2000]. The success and turnaround at Motorola [Laskinsky, 2006] and the success of 3M, Dupoint, Pfizer, GEC among others tc only happened when they changed the rules of the game [Kanter, Kao and Wiersema, 1997]. But rule changing works well when new business models are supported by a culture of perpetual crisis. Creating a culture of perpetual crisis call for constant challenge of the status quo and overhaul of the entire organizational structure and systems to create the necessary re-alignment. Responsive organizations are now transforming themselves through restructuring, re-engineering, downsizing and outsourcing to cut cost. Leading firms have entered into mergers, acquisitions, strategic alliances and other forms of partnership to gain an upper hand over rivals. Many transformational efforts, however, fail to add value to the firms in question. Indeed a number of transformational measures have little impact on operational and financial performance of the concerned firms [Chaffer and Thompson, 1998]. The crazy with cost cutting as part of restructuring and re-engineering programmes ended up bleeding those organizations to death. Many strategic alliances are underperforming and in dire need of restructuring [Ernest and Bamford, 2005] and 65% of acquisitions destroy more value than what they create.
Corporate transformation is by and large a tricky and extremely complex affair and entails managing organizational changes: people, structure, and systems. The biggest challenge to change champions, agents, and leaders in general is to balance the soft and hard issues. Level five leaders, associated with humility, strong willed, ferociously restive and having the tendency to credit others, excel in achieving desirable organizational transformation [Collins, 2004].

1.1.1 Competitive Advantage and Competition

Survival and growth through corporate transformation make strategic sense when platformed on the need to win long term market or industry battles. What organizations need rather urgently is to undertake corporate transformation as part of building a weapon of competitive advantage to grow the numerator as well as the denominator in the same way champions think and work. Competitive advantage, being a unique position that firm develops in comparison with its competitors [Ma, 2000] can with good plan and measure assist in protecting the market against new entrants or small local rivals. The use of competitive advantage to help realize corporate goals only delivers the results when it’s well understood in the organization. Porter [1985] state clearly that competitive advantage should be seen in terms of the discrete activities a firm perform in designing, producing, marketing, delivering and supporting its products and services.

Industry leaders are consequently building their competitive advantage through collaboration, customer relationship management and loyalty programs [Naragandas, 2005]. Investment in information technology as part of virtualization of the organization
and the value chain, innovation and creation of a learning organization and customer centric culture greatly assists in building solid defenses against rivals.

1.1.2 Sources of Competitive Advantage

Firms of all sizes need to see competitive advantage as an integral part of ensuring its long-term survival and prosperity. Creating competitive advantage is dependant on having the right sources of competitive advantage. The sources of competitive advantage could be from within or outside the firm. Firm’s sources of competitive advantage originate from diverse sources [Daveni, 2000]. The industry and the characteristics of the national and international economies act as some of the major sources of external source of competitive advantage [Porter, 1985, 1990]. An organization that has external sources of competitive advantage arising from the industry or the characteristics of a national economy is likely to enjoy a privileged market position. Economies of scale, learning and experience curve and irrevocable commitments which are the main component of a privileged market position have the potential to erect entry barriers to new entrants or small rivals. An organization may entirely rely on the privileged market position to defend its market but capitalize on its resources to win a market war. Organizational resources such as assets, capabilities, competencies, information knowledge and reputation that are owned or controlled by a firm and which enable it to conceive of and implement strategies that improve efficiency and effectiveness [Barney, 1991] can provide it with a sustained competitive advantage. Again not all internal resources of an organization automatically provide leverage and therefore a source of competitive advantage. Some resources are easier to decode than others.
A resource only becomes a source of competitive advantage when it meets four basic criteria: rare, valuable, imperfectly imitable and non-substitutable [Barney, 1995; Grant, 1999 and Collins and Montgomery, 1995]. Organizational resources that conform to the above four criteria fall under the category of core competencies. Prahalad and Hamel [2000] states that core competencies are what matters in situations where firms have to compete within an industry. Core competencies are an area of specialized expertise that results from harmonization of complex streams of technology, knowledge, and work activities that eventually lead to lower cost or differentiated offerings.

Recent studies on the use of internal sources of competitive advantage have shown that leading global firms such as 3M have succeeded in their industry by nurturing and deploying their tangible and intangible resources. Studies by Thompson, Gamble, Strickland and Jain [2006] equally demonstrated how firms like Honda, Intel, and Sony have achieved tremendous success in the more competitive global arena by exploiting their core competencies and capabilities to become winners in the market place. The success of American Firms in the semi-conductor industry against Japanese powerful and smart rivals would have not been possible without them developing distinctive capabilities to match those of Japanese and even overtaking them over the years [Lois and Muller, 2000].
1.1.3 Strategies Used by Companies to Compete

Firms in virtually all markets and industries use a number of strategies to compete among themselves. The strategies used by firms could be firm specific and may vary from time to time depending on whether the firms want to defend the existing market or enter new ones. But whatever the case, a firm can, states Porter [1980], outperform its rivals either through low cost or differentiated products. This view is well supported by among others; Pitts and Lei [2003] who argue that competitive advantage can be built through low cost leadership or differentiation. It should be understood that cost and differentiation strategies are not independent of each other. The two strategies can be used simultaneously [Flynn et al, 1995, Flynn and Flynn, 1996].

Consequently many leading firms use both cost leadership and differentiation strategies to protect their markets against new challengers. Key strategies used by a number of firms to compete on cost or through differentiation relate to innovation, Information, outsourcing, customer focus, contract manufacturing, and process improvement. Firms are thus investing in information and information technology to reduce cost and improve product features. Porter [1990] states that information creates competitive advantage through cost or differentiation. Furthermore Information can help organizations exploit changes within the competitive landscape. VOIP [Internet telephony] for instance is one of the information technology products that firms use to reduce cost and improve product features [Werback, 2005]. Some firms facing price-based competition outsource products through contract manufacturing with a view to reducing production cost. Arrunda and Vazquez [2006] support the rationale for contract manufacturing but hasten to say that
while contract manufacturing cut original equipment manufacturers costs, they could be a major source of competition. The formation of new companies, brands, movement up the value chain and linkage of intellectual property rights are some of the known ways in which contract manufacturing has led to heightened competition in otherwise stable industries.

Major global and regional firms avoid competing purely on cost despite their low cost advantage. They instead adopt differentiation strategy to charge a premium price and boost their profitability. Branding, customer focus, and more value adding services are a few examples of how differentiation strategy is implemented to gain an upper hand over rivals. The essence of a differentiation strategy is well illustrated by a number of studies. Bendapudi and Bendapudi [2005] study on brand building through customer service revealed that Trip and Quick Retailers improved their turnover at the rate of 14% and 22% than typical retailers by building a strong culture of customer service. The results of this study and many other similar ones have convinced a lot of firms to pursue customer satisfaction as an important tool for differentiation. Value addition services are taking the centre stage in many organizations, argue Lombreglia [2005]. Loyalty building programs are gaining more popularity [Narayandas, 2005]. Customer centric organizations are relentlessly focusing on enhancing customer value by addressing the three V’s [Valued Customers, Value Proportions and Valued Networks] states Kumar [2004].
1.1.4 Competition in the Kenyan Sugar Industry

The deregulation of the Kenyan Sugar Industry along side other economic reforms undertaken by the government in the early part of the 1990s has resulted into instability and major changes. The uncoordinated and unplanned opening of the country to cheap sugar imports did put the industry on a panic button. Virtually all the sugar millers began panicking as they came face to face with the new reality of competing against powerful new foreign players [the plan to ward-off increased foreign competition started in earnest].

The Kenya Sugar Industry, which is nearly a century old, dates back to days of the construction of the Kenyan Uganda Railway line. Sugar was first introduced into the country by the Indians who came to participate in the construction of the railway line. The establishment of Miwani [1922] and Ramisi [1927] factories indeed marked the beginning of the history of the Kenyan Sugar Industry. The Government of Kenya did not however get involved in the industry until after the attainment of independence in 1964. The government thus entered the industry through the establishment of Muhoroni, Chemelil, Mumias, Nzoia and Sony in order to provide employment, save foreign exchange and generally accelerate social and economic growth.

Presently the sugar industry consists of only six running firms: Mumias, Chemelil, Muhoroni, Nzoia, Sony and West Kenya Sugar Company. Miwani and Ramisi are under statutory receivership-with no production at all. With the exception of West Kenya sugar
and Mumias Sugar Company—these firms are privately owned while the remaining four firms are exclusively owned and run by the Government of Kenya.

The deregulation of the sugar industry by the government in the 1990s created a lot of havoc to the firms. The opening of the floodgate to cheap imported sugar without safeguards almost drove the firms to instant collapse. Being state owned and managed, most of the millers were mismanaged, corruption ridden, cash starved, inefficient and were at the brink of insolvency prior to the advent of cheap imports. Their survival rested with government and as a matter of fact the government kept the firms in business through guaranteed market and regular injection of cash to sort endemic liquidity problems. The entry into the market of cheap imported sugar further worsened the situation in the industry. The switching of local consumers from expensively produced local sugar to cheap sugar eventually led to a ripple effect. Reduction in sales simultaneously led to low production which further complicated the already deteriorating financial position. In short the opening of the door to cheap sugar imports almost grounded the sugar millers to near bankruptcy and closure. The fate of the firms in the industry was ultimately saved by a concerted effort and measures jointly undertaken by the government, the millers and other key stakeholders.

The government, being an owner and manager of the majority of the firms could not watch the downward slide in the performance of the firms without some action of the sort. It thus put in place a number of measures to protect the industry against unfair competition from cheap sugar imports. All sugar imports had to be sanctioned by the
government and in addition a quota system and a duty of 120% had to apply. Only a limited amount of sugar originating from COMESA Member States could be allowed duty free into the country [duty free import from COMESA Member States was thus restricted to 89,000 tonnes per year]. The survival and ultimate success of the sugar industry depended entirely on its transformation. The government took a centre stage in ensuring the transformation of the industry by enacting new laws and other regulatory measures. The enactment of the new sugar act popularly known as the Sugar 2001 Act fittingly marked the beginning of the industry transformation. These legislative acts, rules and the new and better approaches in the management of the industry is what have led to its stability. The Sugar Act [2001] transformed the Kenya Sugar Authority into Kenya Sugar Board with more powers to regulate the industry and reposition it to meet new competitive challenges. The privatization of Mumias Sugar Company in 1997 should be seen as part of the government commitment to changing the future of the industry for the better by placing the ownership and management of the firms in the private sector.

The firms in their part embarked on new transformational measures to reduce the possible impact of hostile competition. They relentlessly undertook restructuring, re-engineering, downsizing and outsourcing of none core activities to reduce cost and become more competitive. Extra milling capacity and better farm management approaches were enhanced to increase production output, increase farm yields and meet market demands. Most of the transformational measures initiated by the government, the millers, farming community and the Kenya sugar Board have resulted into major positive gains. The industry total production output increased from 448,489 tonnes in 2003 to 488,997 tonnes

The implementation of cost based strategies further translated into an overall reduction of cost of production by 15% [Significant cost reduction were realized through efficiency improvement programs and capacity expansion]. All firms with the exception of Miwani and Muhoroni [these two firms are in statutory receiverships] registered marked improvement in profits. Mumias Sugar, the first sugar miller to be privatized did register a sterling performance in sales, production and profits. The company financial performance ballooned from a loss of Kshs 215m in 2003 to a profit of kshs1.8 billion in 2005. Stability has been restored in the industry through better government policies and appointment of professional managers. The industry is not completely out of the wood despite the above positive changes. It still faces a number of new challenges due to constantly changing competitive landscape. The industry suffers from growing competition, under capacity and high cost of production. The liberation of the Kenyan economy in the early 1990s and subsequent deregulation of local industries opened the floodgate to cheap sugar imports. Sugar imports which mostly originated from COMESA State nearly killed the local sugar millers: COMESA FTA countries for instance supplied 39% of the total sugar imports in 2005[KS, 2005].

Under capacity and high cost of production are the two major contributing factors to the entry of foreign firms into the domestic market. Under capacity in the sugar industry squarely fall in the government court. The industry to-date cannot meet local demand due
to lack of capacity. Capacity expansion is inhibited by the firm’s indebtedness and lack of cheap capital. The millers for instance owned the Kenya Sugar Board a whooping Kshs 7.7 billions. Locally produced sugar is viewed by consumers as more expensive compared to imported sugar. Locally produced sugar cost an average of kshs 47,520 [ex-factory] per tones as opposed to a CIF [Cost Insurance and Freight] of Kshs 24,203 per tonne of imported sugar [KSB, 2005]. The high cost of production is attributed to low farm yields, high gestation period, high taxes, outdated technologies, processing techniques and extraction inefficiencies [Omiti, 2004].

1.2 Research Problem

The future of the Kenya Sugar Industry and by extension that of the millers largely depends on the capacity of the key player to jointly find a lasting solution to three critical issues of growing competition from imported sugar, under capacity and high cost of production. Effective tackling of these issues is more urgent than before as the industry structural changes are expected to intensify in the coming years. Sugar is a strategic commodity and the failure of the firms due to their failure to develop effective competitive strategies may not portend well for all the stakeholders. By and large the Kenyan sugar is a very important industry as it provide over 500,000 direct and indirect jobs, supports the livelihood of over 6 million people [Sugar campaign for change 2004], generate substantial revenue to the country and saves the country significant foreign exchange in addition to accelerating social-economic growth at the national and local level. The contribution of the sugar millers to the economy is enormous. Mumias, the
leading miller in the industry, alone contributed Kshs 34 billion in taxes during the 2004/2005 financial year [The Sunday Standard August 7, 2005].

The future survival and prosperity of the sugar industry largely depend on the action of the individual millers and other key stakeholders. No major studies aimed at assisting the firms in the industry become more competitive are yet to be undertaken by the academic community. The only studies to talk about are those conducted by Obiero (1980), Obara (1976), Oduol (1974), Odada (1979). Unfortunately most of the studies so far undertaken merely focused on the more general social and economic aspects of the industry. Kassamani [1991] study is the only one that came closer to addressing longer-term strategic issues facing all the millers. This study however, has some inherent limitations; its timing and focus-this was a marketing strategy study. And moreover the study was conducted at a time of relatively low level of competition and excess supply in the sugar industry. Significant changes have since taken place in the industry. Growing competition, under capacity and high cost of production now top the list of major strategic issues that the firms in the Kenyan Sugar Industry must deal with effectively or face the dire consequences. The shortages of the 1990s are not completely over as the country experienced a major sugar shortage in 2004, argues Omiti [2004].

There are also some new developments in the industry which demand new thinking and approaches. It is increasingly becoming more apparent that the firm’s way of operation may ultimately become their main undoing should the current competitive pressure from foreign entrants persist. The industry shortcomings which range from under capacity to
high cost of production may be further complicated by the COMESA Protocol. The expiry of the COMESA Protocol in 2008 will once again open the country’s doors to cheap sugar imports from COMESA Member Countries. The only feasible path for firms in the Kenya sugar to conquer the fear of tougher times upon the expiry of the COMESA Protocol is simply to re-conceptualize their businesses models. More urgent attention must equally be paid to capacity expansion and a relentless reduction of the cost of production given the rising domestic demand. Capacity expansion should be the number one priority as the demand for sugar is projected to maintain an upward trend. The firms for instance only managed to produce 488,997 tonnes of sugar against a consumption of 695,622 tonnes in 2005 thus forcing the government to allow for an import of 167,235 tones to meet the supply shortfall.

1.3 Research Objectives

The objectives of the research study were:

i. To determine the sources of competitive advantage for firms in the Kenyan sugar industry

ii. To determine the various strategies used by major firms in the sugar industry to compete among themselves and against external competitors.

iii. To determine how the sources of competitive advantage determine the performance of firms in the Kenyan sugar industry.
1.4 Importance of the Study

The study of the sources of competitive advantage on the performance of firms in the sugar industry will be invaluable to the sugar millers [firms], students of strategic management, the academic community, the government and indeed many Kenyan based firms facing growing competition from new foreign entrants into the local and key regional markets. The main benefits of the study thus include the followings:

i. The sugar firm will learn more about the importance of sources of competitive advantage and the best ways of developing the capabilities for building sustainable competitive advantage

ii. Students of strategic management can use the study findings to expand their knowledge of competitive advantage and in particular how to use the firm’s resources to craft appropriate strategies for outpacing rivals.

iii. The government can use the study findings to assist state corporations and other local firms to create sustainable competitive advantage.
CHAPTER TWO
LITERATURE REVIEW

2.1 The Concept of Competitive Advantage

The concept of competitive advantage is more than a phrase or concept but an essential asset to strive for, cultivate, and utilize strategically. First developed by Porter (1985) in attempt to resolve the puzzle of the roots of competitive advantage that was tied down directly to cost and differentiation, competitive advantage is what firms need to win industry wars. This important concept can be understood by looking at a firm in terms of discrete activities it perform in designing, producing, marketing, delivery and supporting its product [Porter, 1980]. A firm that performs the discrete activities better and in a more effective and efficient manner has a chance to outperform its rivals through lower costs or differentiation.

Companies can create competitive advantage by becoming champions at defining the pattern of successful innovation and executing against it. The advantage that is enjoyed by a winning firm is not across the board but relative to its closest competitors in the same industry. Competitive advantage, argues Sago [2003] must be unique to a single firm and it occurs when a firm uses its resources and capabilities to develop organizational competencies that in turn create value to customers. Outwardly competitive advantage can be defined and understood as a position of supremacy in an industry [Bambrger, 1989].
Two perspectives have however been advanced to facilitate the understanding of competitive advantage. The industry perspective as advocated by Porter [1985] owes its origin to the five forces model and the competitive advantage of nations [Porter, 1996]. The industrial perspective postulates that the success of a firm depend on its strategies and the industry structure—which can make the firm to be more or less profitable. Porter [1985] defines competitive advantage in terms of relative cost and the ability to differentiate oneself from competitors. Daveni [2001] however argues that the industry is not the only source of competitive advantage: competitive advantage comes from diverse sources: core and vital interests. The customer perspective on the other hand advocates that competitive advantage be defined from the customer perspective. Different customers do not buy the same but different kinds of values, which incidentally change as the customer expectation rises [Treacy, 1997] and the production of unmatched level of a particular value requires a superior operating model.

Competitive advantage is concerned with a firm’s ability to deliver superior customer value better than competition. It is not easy to define value unless you get into the customer’s head —value can only be defined by the ultimate consumer. Treacy [1997] however define customer value as the sum of benefits received minus the cost incurred by the customer from the product and the service provided by the organization. A more straightforward and comprehensive definition of competitive advantage is that offered by Aaker [2002] who defines competitive advantage as the value proposition delivered to a well defined set of customers by a given brand. A brand value proposition is a statement of the functional, emotional and self-expressiveness delivered by the brand that provides
value to the customer. Customer value is a rather complicated thing as it varies from customer to customer and is always changing with the changing customer tastes and preferences. What ultimately matter is value as perceived by the customer and this value can only be defined by the ultimate consumer [Wanack and Jones, 2006]. Davidson [1997] state that superior customer value is usually achieved through organizations offerings as perceived by the customer.

2.2 The Value Chain and Competitive Advantage

Customer value is created within the organization value chain. Robinson [2000] state that customer value is derived from three sources It should be noted that assets like leadership talent and speed are what produce superior customer value [Ulrich and small, 2004]. The value chain is a model that describe a series of value adding activities connecting the company supply side with its demand side. Porter [1985] states that the efficiency and effectiveness with which the activities are performed within the value chain determine the cost and extent of differentiation.

Rayport and Svioka [1998] define the value chain as a model that describes a series of value adding activities connecting the company supply side with its demand. The value is fittingly a basic tool for diagnosing competitive advantage and looking for ways to create it. This is true to a larger extent because the value chain provides a systematic way of dividing the firm’s activities into its discrete activities. Different firms of relatively the same size and scope is likely to have different performance because of differences in their value chain.
Porter [1985] divide the discrete activities carried out by firms within the value chain into primary[core] and secondary[non-core] activities. Primary activities are the major economic activities that relate directly to actual value creation and include manufacturing, distribution, and marketing. Secondary activities are not key to the creation and delivery of customer value but are nevertheless needed to complement the primary activities. The value that is finally produced within the value chain is determined by organizationally resources and other capabilities that in turn translate into distinctive competencies. Technology is one of the capabilities that contribute significantly to the efficiency of the value chain. Embodied in both primary and secondary activities, technology affects cost or differentiation. Technology, which includes information system, office or administrative technology, production technology can result into lower cost by influencing the cost drivers or differentiation through reconfigured value chain [Porter, 1985].

2.3 Classification of Sources of Competitive Advantage

The sources of competitive advantage for a firm are diverse. Porter [1990] attributes the sources of competitive advantage as originating from outside the firm; these advantages flow naturally from the industry structure [Cool, Costa and Dierichy, 2000] and the national characteristics when a firm faces a foreign competitor [Porter, 1990]. Daveni [2001], however points out that a firm’s sources of competitive advantage originate from both outside and within itself-core and vital interests. Resource based view of strategy takes the position that a firm resources are firm specific [Barney, 1991].
Cater [2004] present a much broader classification of resources to include both the external and internal sources. The marrying of internal and external sources of competitive advantage is premised on the fact the sources of competitive advantage regardless of their source are complementary.

2.3.1 The External Sources of Competitive Advantage

The external sources of competitive advantage can be traced to the structure of the industry such as the bargaining power of suppliers or customers, the threat of substitutes, the threat of new entrants and current competition among the existing firms [Porter, 1985] and the characteristics of the environment [Lado et al, 1992, Gadhoam, 1998] and whether the firm faces foreign competition [Porter, 1990]. Firms facing foreign competition derive their competitive advantage from the country of origin or locational advantage. It is indeed the locational advantage [this is influenced by the factor cost, demand conditions, related and supportive firms/industries and the nature of the structure and strategies among the competing firm] that creates effective barriers.

A dominant firm in the industry can use its superior bargaining power with suppliers to secure inputs at lower costs and thus create barrier to small rivals or new entrants purely on the cost advantage. Established firms are likely to enjoy prevailing strengths unlike new entrants [Pitts and Lei, 2003]. Existing firms capacity to outperform smaller rivals or new entrants lie purely on economies of scale, experience and learning curve and a favourable government policy. The resultant economies of scale in it does not translate
into a solid barrier to the new entrants. Privileged market position arises from the existence of sunk costs and not the scope of the firm's operation.

The most important thing to understand and appreciate about the external sources of competitive advantage is the inherent power to act as an entry barrier to new entrants (external sources of competitive advantage) provides the incumbent with a privileged market position. Economies of scale, absolute cost advantage, network externalities, customer base, proliferation of products varieties, government policies, synergistic alliances, brand identity, switching cost, access to distribution, expected retaliation and proprietary products are major external sources of competitive advantage that assist leading firms to erect barriers to new entrants.

2.3.2 The Internal Sources of Competitive Advantage

The internal sources of competitive advantage stem from the resource based view of strategy which stipulates that a firm's sources of competitive advantage originate from within the firm and therefore the firm resources. A firm's internal sources of competitive advantage are thus classified into physical, financial, human and organizational varieties [Barney, 1997]. Some strategy experts such as Venugopal [2001] however classify resources as assets, skills and capabilities. Capabilities denote an area of excellence [these are knowledge based speciality or service] and can be further classified into managerial input based, transformational base [Lado, Boyd, Wright, 1992]. Cater [2004] classify internal resources as either tangible or intangible. The tangible resources according to this classification include physical and financial resources, functional
capabilities, and input based. The intangible resources are less visible and broadly include assets like patents, know-how, skilled workforce, strong customer loyalty, software, unique process and organizational design [Baruchlev, 2004]. A further subdivision of intangible resources pegs it to either firm related or to employee related specific resources and encompass organizational resources, transformational and output based capabilities and knowledge of the firm. Employee related sources of competitive advantage on the other hand refer to a firm’s strategies, human resources, managerial capabilities, and knowledge of individuals. Figure 2.1 aptly demonstrate the classification of a firm’s sources of competitive advantage in terms of internal and external.

**Figure 2.1: Classification of sources of Competitive Advantage**

2.4 How Resources of a Firm Determine Its Performance

The resource-based view of strategy emphasizes the firm specific resources as the fundamental determinant of its competitive advantage [Ramel, 1987; Wermelfelt, 1984, Barney, 1986a, Dierickx and Cool, 1989]. The firm resources enable it to conceive of and implement strategies that improve its efficiency and effectiveness. Key resources used by firms to build their competitive advantage include as assets, capabilities, competencies, information knowledge, and reputation [Daft, 1983 and Barney, 1991]. A firm’s sustained competitive advantage may not exclusively be based on the firm’s unique, specific assets and capabilities but on a privileged market position [Caves, 1998, Shapiro, 1989; Peteraf, 1993; Kay, 1993].

In the final analysis a firm’s competitive advantage can be built on a firm’s resources [Bharadwaj et al, 1993, Hunt, 1999]. A firm’s capabilities again provide the best defense against competitive forces, influencing the balance of competitive forces or anticipating and exploiting those factors. Savvy managers use a combination of their internal logic and organizational existing capabilities to pursue growth beyond the firm’s boundaries [Rooke and Torbet, 2005]. Leading global firms such as Sony, Honda, Apple, 3M and Canon have respectively built their success on their core competencies i.e. miniaturation of electronic equipment, building high performance engines, making user friendly computers interface and design, relentless innovation and integrating precision mechanics and fine options. Similar studies by a number of prominent researchers tend to show the importance and relevance of internal resources on the performance of firms. Spanos and
Lioukas [2001] studies confirmed that the internal resources are more important and have a significant influence on the firm’s performance.

2.5 The Relationship between a Firm’s Strategy and its Performance

The long-term performance of any business largely depends on the type of strategies it crafts and deploy in a given market or industry. Corporations need to have appropriate strategies to achieve the long-term growth which can be realized through the organic [Laurie, Doz and Sheer, 2005] or non-organic route. Strategy as both an art and a science and great strategies come from experience, intuition, insights, inspirations and seeing the big picture [Daveni, 2001]. Essentially, strategy is a multi-faceted concept [Hax and Majluf, 1996] that businesses use to exploit the vast business opportunities.

A strategy can help a firm master a market environment and take the right action to manage its competitors through a good understanding of their strategies. The strategies pursued by competitors can be understood by looking at their actions in terms of efforts devoted at achieving sales and market shares, attempts at mergers, acquisitions of rivals, entering strategic alliances and other collaborative partnerships [Thompson, Trickland, amble and Jain, 2006]. These strategies do not in themselves produce the desired results without excellent execution capability. But even with good execution capability spread throughout the organization many strategies don’t really work [Steel, 2005]. Strategies based on portfolio planning and competitor analysis lead to strategies that rivals can easily decode [Prahalad and Hamel, 2005]. A number of off the shelf strategies only deliver 63% of the financial performance promised. Winning in today’s highly
competitive market requires nothing short of a distinctive strategy. Distinctive strategies enable a firm to control the sandbox [Robert, 2000]. But the development of a distinctive must begin with a strategic intent, measurement of quantitative analysis, hard, difficult data, blended with wisdom, insights and risk taking [Gerstner, 2003]. Strategy formulation as a process call for adoption of a rigorous process and making the right choices: strategy is about making choices [Ungerer, Pretorius and Herholdt, 2002].

2.5.1 Generic Strategies

Generic strategies are a set of strategic options that firms can choice from a wide range of available strategic options to win market wars. Figure 2.2 clearly shows the generic strategies that firms can use to defend existing markets or acquire new markets. Accordingly Porter [1985] states that a firm can win market wars through cost leadership, differentiation or focus. Cost leadership strategies are used by market leaders and entail the production of goods and services lower costs than rivals [Thompson and Strickland, 2003]. Cost leadership depends on cost reduction and cost containment. Leaders with economies of scale, experience, and learning curve [Hrebniak, 2005]. Firms thus lower their cumulative costs across its value chain and use a series of avenues to cut costs. Controlling the cost drivers [economies of scale, learning and experience curve effects, managing the cost of inputs, linkages with other companies, sharing of opportunities with other organizations, vertical integration, outsourcing, first mover advantage, capacity utilization and strategic choices [Porter, 1985] and revamping the value chain through new technology [Thompson and Strickland, 2003] are some of the methods used by a number of industry leaders to achieve cost leadership.
Firms opting for cost leadership strategy ought to take some caution due to some inherent risks. Changes in technology, decline in profitability, changing customer requirements and having more than one organization in the market pursuing low cost strategy are some of the attendant risks to be managed [Skellon, 2004]. Low cost may also destroy profitability and indeed being a low leader requires operational excellence and continuous improvement within the company's value chain. Some firms compete in the same market and industry not through low cost leadership but by being unique and hence the use of differentiation strategy. Hrebiniak [2005] states that differentiation as a strategy is purely influenced by the product and customer characteristics. The essence of differentiation strategy is to be unique in ways that are valuable to customers and can be sustained [Thompson, Strickland, Gamble and Jain, 2003].

Differentiation is increasingly being used in highly competitive markets because it allows a firm to stand out in the crowded market and finally it can translate into high profitability especially where the firm changes a premium for its differentiated offerings. Firms differentiating themselves from their rivals either through branding, new distribution channels, and customer service produce sterling performance. A study by Mason [2004] focusing on the performance of Harley Davidson, a USA motor cycle manufacturing and marketing company revealed that the company realized extraordinary results through differentiation: the firm achieved good results by differentiating itself through marketing customer experience. Differentiators are, however, advised to be careful with differentiation strategy due to some of its weaknesses i.e. Differentiation can be narrowed or eliminated through imitation, customers may cease to value the point of
differentiation, the cost proximity to the competitor may be lost and finally competitors following a focus strategy may even achieve greater differentiation by specializing in one segment of the market.

The third common strategy used by a few firms is to segment and target a specific market segment with potential for growth instead of going for mass market. The focuser avoid operating in the whole market for a number of reasons: resource, the nature of the product and industry structure. The focuser aim at doing a better job of serving buyers in the target market niche than existing rivals. The competitive advantage of the focuser therefore lies in its ability to offer products at lower costs than competitors or offer the niche members products perceived to be better than competitors offerings [Thompson, Strickland, Gamble and Jain, 2006].

Figure 2.2: Three Generic Strategies

<table>
<thead>
<tr>
<th>STRATEGIC TARGETS</th>
<th>STRATEGIC ADVANTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OVERAL COST LEADERSHIP</td>
</tr>
<tr>
<td></td>
<td>DIFFERENTIATION</td>
</tr>
<tr>
<td>FOCUS</td>
<td></td>
</tr>
</tbody>
</table>

Source: Porter (1980)
2.5.2 Choosing the Right Strategy for Building Competitive Advantage for Enhanced Performance

The performance of a firm is determined by the kind of strategy it chooses to pursue. Corporate leaders are thus urged to set clear criteria for choosing the right strategy. The choice of a strategy could for instances be determined by such issues as whether the company target a broad or narrow market or whether the company pursue a competitive advantage linked to low cost or product differentiation [Thompson, Strickland, Gamble and Jain, 2006]. It can choose low cost, differentiation or focus or a combination of any of the two. Strategy is about making choices among available options. Porter [1985] state that strategy is about being different and companies can differentiate themselves from their rivals by choosing to perform its activities different from its rivals.

2.6 Operationalizing the Strategies for Exceptional Business Results

The strategy that is finally chosen by the firm must be taken to the next level implementation. Implementation is the acid test of a strategy. Indeed formulating a strategy is one thing, executing it throughout the organization is the real hard thing [Hrebiniax, 2005]. Most strategies don’t work; they instead fail because of the behaviour of managers. A study conducted by Manikins and Steel [2006] involving 136 large companies attributed the failure of the strategy due to the way the managers make decisions. Managers also fail due to their failure to gaze deep into the future and develop a long-term strategy that will confer sustainable competitive advantage [Sull, 2005]. Implementing our best thinking may be difficult due to unclear direction, lack of resources, and use of fixed strategies and underestimation of the requirements [Ungerer, Pretorius and Herholdt, 2002]. Implementation of a chosen strategy is the key to the
success of the organization and yet many managers don’t pay sufficient attention to it. Execution, which entails linking the three processes: people, strategy and operation, is critical to the success of the organization [Bossidy and Ram, 2002]. Successful organizations are not simply better at turning theories into practice but able to carry the strategy out [Sherman and Royal, 2004].

There are numerous ways and means of solving implementation problems in order to realize good corporate results. Smart corporate leaders solve implementation problems by developing effective structure, communication, information sharing, incentives, control systems and change management [Hrebiniak, 2005]. Implementation can also be enhanced by marshalling ample resources and instituting on policies and procedures [Thompson, Strickland, Gamble and Jain, 2006].

There is a common tendency in many organizations to adopt structural changes to overcome bottlenecks in implementation-structural changes adopted by organizations to overcome implementation difficulties do not work because they are both expensive and disruptive [Kaplan, 2005]. A way out of these myriad of implementation hiccups is to take the balance scorecard route. Kaplan and Norton [2006] urge companies to adopt a management systems based on the balance scorecards framework. This framework incorporates four critical perspectives [financial, customer, internal processes and learning and growth] and can effectively be used to implement and monitor performance at the corporate, business, functional and individual employee levels. The balance scorecard ensures sustained good corporate performance because of its balanced
approach and measuring the performance of all employees. The balance scorecard has successfully been used by many leading blue-chip companies to achieve consistently good results. The success of companies using the balance scorecard is contained in one of the most recent study conducted by Kaplan and Norton [2005]. DuPont and Royal Canadian police covered by the study did indeed realize enormous value that their portfolios of assets, people, and the skills represent as a result of institutionalizing the use of the balance scorecard.

The balance scorecard should therefore be seen as an effective tool for translating the strategy into action. The balance scorecard is the invaluable tool that is helping companies around the world makes strategy a core competency. The balance scorecard translate strategy into action by mobilizing change through executive leadership, translate strategy into operational terms, align the organization to the strategy, motivate to make the strategy everyone’s job and govern to make strategy a continual process [Kaplan and Norton, 2001].

Consequently strategy can be translated into operational terms with the help of strategy maps. A balanced scorecard strategy map is a generic architecture for describing a strategy and is purely based on the cause and effects logics [Kaplan and Norton, 2001].

Adopting the four perspectives: the financial perspectives, the customer perspectives, internal processes and learning and growth thus operationalize a strategy.
One of the most effective ways of overcome strategy implementation bottlenecks as advocated by the balance score is the use of strategy maps as a critical input in developing appropriate operational plans. A clear template for implementing the strategy is then devised to ensure accountability. Ungerer, Pretorious and Herholdt [2002] state that the template for operationalizing the strategy must include nine important items: setting strategic goals, developing strategic measurements, developing strategic initiatives, establishing business goals, action to be taken by members of the team, spelling out responsibility of each team member, developing performance indicators, working out the budget and undertaking progress reviews.

A significant item after the strategy formulation has been put in place is to ensure the delivery of the requisite results in line with the agreed performance parameters such as sales, costs, quality, margins, profits and return on investment corporate leaders can only be able to undertake appropriate annual review upon ensuring that employees work towards realizing the desired results. The managers can then review the performance of the strategy by using such measurements like finance [return on investment, profitability, revenue growth, cost reduction and productivity], customer satisfaction [market share, customer acquisition, customer profitability and customer satisfaction], internal process [new products and systems] and finally learning and growth [employee satisfaction, retention and productivity.]
CHAPTER THREE
RESEARCH METHODOLOGY

This chapter shows how the data was collected to address the objectives in chapter one. The chapter is organized into research design, target population, data collection, and data analysis.

3.1 Research Design

The study adopted survey research design. Mugenda and Mugenda (1999) notes that a survey research attempts to collect data from members of a population and describe existing phenomena by asking individuals about their perception, attitudes, behavior or values. Moreover, it explores the existing status of two or more variables at a given point in time. Primary data collected from such a population or census is more reliable and up-to-date and hence the choice of this method (Mugenda and Mugenda, 1999). The descriptive research will enhance a systematic description that is as accurate, valid and reliable as possible regarding the responses on the main sources of competitive advantage, the main strategies used by firms in the Kenyan Sugar Industry to compete against foreign competitors and against themselves and how the sources of competitive advantage determine the performance of the firms.

3.2 Target Population

The population of interest consisted of six sugar millers [firms in the Kenyan Sugar Industry. These firms were identified with the help of Kenya Sugar Board Year Book of Sugar Statistics (2005).
3.3 Data Collection Methods

The study employed a semi-structured questionnaire to collect primary data. The questionnaire was administered to the respondents through drop and pick method. The instrument consisted of three parts. Section A covered items eliciting general information about the company, section B dealt with sources of competitive advantage, section C focused on strategies used by firms in the sugar industry to compete and finally section D took care of the performance of the firms in the sugar industry.

3.2 Data Analysis and Presentation

The data collected through the questionnaires were coded and screened on SPSS database. The data was then analyzed using the SPSS data analysis program. The result of the statistical analysis is presented in the form of tables, percentages, and variance analysis.
CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION OF RESULTS

The research investigated how the sources of competitive advantage determined the performance of firms in the Kenyan Sugar Industry. The questionnaire was circulated to the six chief executives of each of the six sugar companies. Only four out of the targeted six executives responded. Data was then analyzed on the basis of the response rate (67%) and presented as below.

4.1 Organizational Profile

Six sugar firms were targeted for study but only four participated: Mumias, Chemelil, Nzoia and South Nyanza Sugar Company. The study revealed amongst others that Kenyan Government owns and manages the majority of the sugar firms. Mumias and West Kenya sugar factories are privately owned and managed. It further emerged that all the six sugar companies under study are located in western part of Kenya. Mumias Sugar Company was established by the Government in 1972 along side other sugar firms like Muhoroni and Chemelil. The government privatized the company in 1997 as part of its commitment to privatization. The company has since it changed hands from the government to the private sector recorded sterling performance in production, sales and profits. Excellent performance which is evidently clear in significant growth in production output, sales and Profits is attributed to cost reduction, branding and customer loyalty.
It is pertinent to note and appreciate that the company turnaround only began in 2003 when it changed its top management. The new management team formed to put the company on a profitable path has delivered exceptional results over the years. Production jumped from 237,000 tones in 2003 to 269,184 tones in 2005 resulted into an increase in sales from Ksh7.63 billion in 2003 to a Ksh 10.08 billion. Over the same period the company’s market share moved from 22% in 2003 to 62% in 2005. Overall the financial position of Mumias has improved tremendously. Profit ballooned from a loss of Kshs 244 million in 2003 to a profit of 1.8 billion in 2005.

Chemelil Sugar is the second sugar firm established by the Government in 1969 to produce sugar for local consumption. The firm was the darling of the industry until the liberalization of the industry in the 1990s when it started experiencing problems, just like the other sugar millers. Its relative performance as of now can be described as fair. A number of factors within and without the firm have led to this level of performance. Lack of milling cane for crushing, high production cost and stiff competition are partly to blame for the fair performance. A combination of these problems resulted into a drop in production from 50,056 tones in 2003 to 43,536 tones in 2005. Similarly the company experienced a drop in sales and profits.

The company less than acceptable performance is however changing for the better. Successful cost reduction, branding and acquisition of is 9001-2000 and factory efficiency improvement has reversed the downward trend in most of the performance parameters. Sales picked in 2005 from a low of Kshs 1.7 billion to a high of Kshs 2.1

Nzoia Sugar Company is government owned and managed firm established in 1978. The company boasts of a workforce of 1543 and has had a mixed performance. At one time it owned farmers huge arrears plus other suppliers that nearly sent to the receiver managers. The situation has now changed from bad to good and especially following the change in top management. Substantial improvements have been realized on a number of performance parameters. Production output increased from 53442 tones in 2003 to 67075 tones in 2005. The company’s performance in the market is evidently clear as its market share grew from 15% in 2003 to 20% in 2005. Improved production output, successful cost reduction strategies and good financial management have all translated into better financial performance. Indeed the company financial picture changed from a loss of kshs 20 billion in 2003 to a profit of Kshs 460 million in 2005.

South Nyanza Sugar Company popularly known as Sony was established by the government in 1979 to produce sugar for domestic market and support the cane farmers. The company, which boasts of a workforce of about 1300, has had a mixed performance since its inception. Like other sugar millers the company has faced numerous operational problems-problems ranging from high cost of production to inadequate finance to acquire new production facilities and motivate the cane farmers by clearing their arrears. Being owned and managed by the government has not made things any better.
Sony’s performance on average can be described as fair given the myriad of problems it has faced. The new management put in place in the recent past however describes its performance as good. Favorable weather conditions, fewer breakdowns and better sugar prices have resulted into significant growth in production output, sales and the bottom-line. Production output jumped from 52,850 tones in 2003 to 78,947 tones in 2005. Sales on the other hand grew from Kshs1.7 billion in 2003 to Kshs approximately Kshs 3 billion in 2005. The success of Sony sugar to-date is mainly attributed to the implementation of its successful strategies such as adoption of the latest technologies [diffuser], reduction in production cost, diversification and expansion in milling capacity amongst others.

4.2 Sources of Competitive Advantage of Firms in the Kenyan Sugar Industry

The firms in the Kenyan sugar industry derive their sources of competitive advantage from diverse sources. The study revealed that 54% of the sources of competitive advantage come from within the firms themselves while the remaining 46% originate from the external sources (see Figure 4.1). Internal sources of competitive for the sugar millers consist of functional capabilities such as human resources, crushing capacity, irrigation technology, distribution network for marketing, production technology and IT capabilities. These organizational and functional capabilities blend well with the major external sources of competitive advantage such as Suitable ecological zone, committed and loyal farming community, national sugar consumption capacity, early maturing and high sugar sucrose varieties, loyal customers and strategic business location to give the firms leverage over new foreign entrants.
The study findings further established that the internal sources of competitive advantage were more important than the external sources. The respondents rated Human resources [75%], prudent financial management [50%] and crushing capacity [50%] as the most important internal sources of competitive advantage. The scores for external sources of competitive advantage were low in comparison to the internal sources with the exception of ecological zone [Good fertile soil, favorable climate and committed farming community]. Ecological zone emerged as the only external source of competitive advantage with a high rating of 75%. The other remaining external sources of competitive advantage on average received a rating of 25% (Table 4.1).
Table 4.1: Internal sources of competitive advantage

<table>
<thead>
<tr>
<th>Internal sources</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human resources (Adequate skilled labour/ Qualified, trained, experienced and</td>
<td>75.0</td>
</tr>
<tr>
<td>committed staff)</td>
<td></td>
</tr>
<tr>
<td>Current crushing capacity</td>
<td>50.0</td>
</tr>
<tr>
<td>Irrigation technology</td>
<td>50.0</td>
</tr>
<tr>
<td>Distribution network for marketing (Market and distribution network)</td>
<td>50.0</td>
</tr>
<tr>
<td>Production technology</td>
<td>50.0</td>
</tr>
<tr>
<td>Prudent financial management</td>
<td>25.0</td>
</tr>
<tr>
<td>Financial resources and management</td>
<td>25.0</td>
</tr>
<tr>
<td>IT resources</td>
<td>25.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>External sources of competitive advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suitable ecological zone (good soil and favorable climatic conditions)</td>
</tr>
<tr>
<td>Committed and loyal cane farming community</td>
</tr>
<tr>
<td>National sugar consumption capacity</td>
</tr>
<tr>
<td>Early maturing and high sucrose content sugar varieties</td>
</tr>
<tr>
<td>Strategic business location</td>
</tr>
<tr>
<td>Customer loyalty</td>
</tr>
</tbody>
</table>

The implication of the study finding is that both the internal and external sources of competitive advantage are important in building competitive advantage but that the internal sources are more important than the external sources. External sources of competitive advantage complement the internal sources by providing the firms with privileged market position such as economies of scale, cost advantage and first mover advantage.

4.3 Main challenges facing firms in the sugar industry

The firms in the sugar industry are faced with more new challenges arising from increased global competition. The new challenges offer vast opportunities for growth and at the same time more threats to the firms. The study found that the firms in the sugar industry have vast opportunities for accelerated growth. Major opportunities for growth include better market for sugar in the domestic as well as export market [28%],
availability of fertile land for expansion of cane acreage [18%] and favorable climate. The potential for irrigation, large market for sugar-by products, availability of cheap labor and improved government are some other opportunities that the firms can tap to generate more revenue and improve their bottom-line [See Table 4.2]

Table 4.2: Main opportunities for firms in the Kenyan sugar industry

<table>
<thead>
<tr>
<th></th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better prospects of improved home and international market share</td>
<td>28</td>
</tr>
<tr>
<td>Availability of fertile land for expansion</td>
<td>18</td>
</tr>
<tr>
<td>Cheap labour availability</td>
<td>6</td>
</tr>
<tr>
<td>Local high premium sugar prices</td>
<td>6</td>
</tr>
<tr>
<td>Diversification prospects</td>
<td>6</td>
</tr>
<tr>
<td>Improved government support</td>
<td>6</td>
</tr>
<tr>
<td>Abundant potentials for irrigation</td>
<td>6</td>
</tr>
<tr>
<td>Adequate rainfall for cane development</td>
<td>6</td>
</tr>
<tr>
<td>Growing consumer loyalty for locally produced sugar</td>
<td>6</td>
</tr>
<tr>
<td>Proven technologies</td>
<td>6</td>
</tr>
</tbody>
</table>

The long term success of the sugar firms hinge on their capacity to effectively deal with numerous threats that left unattended to could slow down the pace of growth. The COMESA Protocol [18%], high taxation [13%], abrupt shift in sugar policies [8%], cultural land use [8%] and cane diseases [8%] are the main threats that the firms must find answers to or face tough times (Figure 4.2). The COMESA Protocol is not just an imagined or short guessed threat but a reality that must be confronted by the firms. Kenya is a member of the COMESA free trade region/state and as such it must allow all imports including sugar, from COMESA member countries duty free. Kenya applied and received exception from free sugar import into the country. The safeguard given to the sugar firms expires in 2008 and from then onward all sugar imports originating from COMESA countries will not be subjected to quota and the current high import duty of 120%.
4.4 Main strategies used by the firms to compete

Figure 4.3 and show the range of strategies used by the firms in the sugar industry to compete against foreign rivals and among themselves. Cost based strategies, lobbying the government and differentiation are the three major strategies used by the local firms to gain advantage over foreign rivals. The application of these strategies somehow take different dimensions and may vary from firm to firm. Improving on efficiency to reduce production cost/cost reduction [20%), factory optimization and expansion [10%), international quality certification [5%) and economies of scale [5%) are the techniques used by the firms to implement cost based strategy. Lobbying the government [10%) is
increasingly being seen as an effective short-term strategy for erecting entry barriers to new foreign players (Table 4.3).

Table 4.3: Main strategies used by sugar firms to compete against foreign rivals

<table>
<thead>
<tr>
<th>Main strategies</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving on efficiency to reduce production costs</td>
<td>20</td>
</tr>
<tr>
<td>Diversification into sugar by-products</td>
<td>10</td>
</tr>
<tr>
<td>Factory optimization and expansion</td>
<td>10</td>
</tr>
<tr>
<td>Adoption of best yielding varieties</td>
<td>5</td>
</tr>
<tr>
<td>International quality certification</td>
<td>5</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>5</td>
</tr>
<tr>
<td><strong>Sub total</strong></td>
<td><strong>55</strong></td>
</tr>
</tbody>
</table>

**Government**

| Lobbying for protectionism legislation through import tax regimes | 10 |

**Differentiation**

| Price leadership                  | 10 |
| Branding and packaging in portable units | 10 |
| Product differentiation            | 10 |
| Market segmentation                | 5  |
| **Subtotal**                       | **35** |

The study found that local sugar companies use only two competitive strategies when it comes to inter firm competition: cost and differentiation strategies. Cost based strategies are mainly implemented through cost reduction [30%), international quality certification [5%), adoption of the latest technologies [5%) and continued staff training [5%). Differentiation strategy on the other hand is being implemented through packaging and branding [15%), product differentiation [5%), price discounts and rebates [5%) and enhancing customer satisfaction [5%). Table 4.4 gives the results.
### Table 4.4: Key strategies used by local firms to compete among themselves

<table>
<thead>
<tr>
<th>Cost</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost reduction</td>
<td>30</td>
</tr>
<tr>
<td>Diversification into sugar by-products</td>
<td>5</td>
</tr>
<tr>
<td>Factory optimization and expansion</td>
<td>5</td>
</tr>
<tr>
<td>International quality certification</td>
<td>5</td>
</tr>
<tr>
<td>Adoption of latest technologies</td>
<td>5</td>
</tr>
<tr>
<td>Continued staff training and development</td>
<td>5</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>55</strong></td>
</tr>
<tr>
<td><strong>Differentiation</strong></td>
<td></td>
</tr>
<tr>
<td>Product differentiation</td>
<td>5</td>
</tr>
<tr>
<td>Packaging and branding</td>
<td>15</td>
</tr>
<tr>
<td>Price leadership</td>
<td>5</td>
</tr>
<tr>
<td>Price discounts and rebates to customers</td>
<td>5</td>
</tr>
<tr>
<td>Enhancing customer satisfaction</td>
<td>5</td>
</tr>
<tr>
<td>Full involvement in corporate social responsibilities</td>
<td>5</td>
</tr>
<tr>
<td>Motivation of cane growers</td>
<td>5</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>45</strong></td>
</tr>
</tbody>
</table>

#### 4.5 Sources of competitive advantage and the performance of sugar firms

The study showed that there is a direct relationship between the sources of competitive advantage and the performance of the firms in the sugar industry. Figure 4.3 shows the performance of the firms in the Kenyan Sugar Industry on the basis of sales and net profit for three consecutive years. Evidently, Mumias Sugar is the leading firm in the industry over the last three years. The company leads the pack in sales and net profit.
The nature of the relationship between the sources of competitive advantage and the performance of the firms however comes out clearly in Table 4.5. The study findings demonstrate the significance of internal sources of competitive advantage sources of competitive advantage and their influence on the performance of the firms. Human resources [0.025], prudent financial management [0.025] and cane crushing capacity [0.027] were the main internal sources of competitive advantage with the greatest impact on the firms’ performance. The sugar companies which have and used these internal sources of competitive advantage achieved significant growth in sales and net profit for the last three years. The research findings does not down play the importance of external sources of competitive advantage-external sources are important in the creation of a firms competitive advantage by complimenting internal sources to generate good results National sugar consumption capacity [0.006], committed and loyal farming community [0.078] and early maturing and high sucrose content sugar variety [0.098] were rated by the respondents as the most significant for the sugar firms. Ecological zones [0.57],

Figure 4.3: Mean sales performance and net profit for the last three years

- Mean Sales Performance (Kshs) For The Last 3 Years
- Mean net profit (Kshs) for 3 years

<table>
<thead>
<tr>
<th>Company</th>
<th>Mean Sales Performance (Kshs)</th>
<th>Mean net profit (Kshs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumias Sugar Company</td>
<td>9.00E+09</td>
<td>2.00E+09</td>
</tr>
<tr>
<td>Chemelil Sugar Company</td>
<td>1.00E+09</td>
<td>1.00E+09</td>
</tr>
<tr>
<td>Nzoia Sugar Company</td>
<td>2.00E+09</td>
<td>2.00E+09</td>
</tr>
<tr>
<td>Sony Sugar Company</td>
<td>3.00E+09</td>
<td>3.00E+09</td>
</tr>
</tbody>
</table>

The nature of the relationship between the sources of competitive advantage and the performance of the firms however comes out clearly in Table 4.5. The study findings demonstrate the significance of internal sources of competitive advantage sources of competitive advantage and their influence on the performance of the firms. Human resources [0.025], prudent financial management [0.025] and cane crushing capacity [0.027] were the main internal sources of competitive advantage with the greatest impact on the firms’ performance. The sugar companies which have and used these internal sources of competitive advantage achieved significant growth in sales and net profit for the last three years. The research findings does not down play the importance of external sources of competitive advantage-external sources are important in the creation of a firms competitive advantage by complimenting internal sources to generate good results National sugar consumption capacity [0.006], committed and loyal farming community [0.078] and early maturing and high sucrose content sugar variety [0.098] were rated by the respondents as the most significant for the sugar firms. Ecological zones [0.57],
strategic business location [0.324] and customer loyalty [0.124] had the least impact on the performance of the firms understudy (Table 4.4).

Table 4.5: Significance Tests between sources of competitive advantage and net profit

<table>
<thead>
<tr>
<th>Source</th>
<th>Df</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final Model</td>
<td>3</td>
<td>711.090</td>
<td>0.011</td>
</tr>
<tr>
<td><strong>Internal sources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human resources (Adequate skilled labor/</td>
<td>1</td>
<td>677.75</td>
<td>0.025</td>
</tr>
<tr>
<td>Qualified, trained and experienced workforce)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cane crushing capacity</td>
<td>1</td>
<td>664.40</td>
<td>0.027</td>
</tr>
<tr>
<td>Prudent financial management</td>
<td>1</td>
<td>628.75</td>
<td>0.025</td>
</tr>
<tr>
<td>Financial resources</td>
<td>1</td>
<td>2090.00</td>
<td>0.014</td>
</tr>
<tr>
<td>IT resources</td>
<td>1</td>
<td>2090.00</td>
<td>0.014</td>
</tr>
<tr>
<td>Production technology</td>
<td>1</td>
<td>2090.00</td>
<td>0.014</td>
</tr>
<tr>
<td>Irrigation technology</td>
<td>1</td>
<td>2090.00</td>
<td>0.014</td>
</tr>
<tr>
<td><strong>External sources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suitable ecological zone (good soil and</td>
<td>1</td>
<td>3.754</td>
<td>0.57</td>
</tr>
<tr>
<td>favorable climatic conditions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed and loyal cane farming community</td>
<td>1</td>
<td>3.2144</td>
<td>0.078</td>
</tr>
<tr>
<td>National sugar consumption capacity</td>
<td>1</td>
<td>312.55</td>
<td>0.006</td>
</tr>
<tr>
<td>Early maturing and high sucrose content</td>
<td>1</td>
<td>3.363</td>
<td>0.098</td>
</tr>
<tr>
<td>sugar varieties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic business location</td>
<td>1</td>
<td>3.120</td>
<td>0.324</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>1</td>
<td>2.147</td>
<td>0.124</td>
</tr>
</tbody>
</table>

The study does show as per the above Table 4.5 that on the whole internal sources of competitive advantage had the greatest impact on the performance of the firms compared to the external sources. The internal sources are within the control of managers unlike the external sources of competitive advantage that are not beyond the managers’ control but are essentially temporary in nature. External sources of competitive advantage such as strategic location, ecological zones and committed and loyal farming community should not be ignored as they play an important role in the firms’ long-term success. In the final analysis the external sources of competitive advantage are necessary but not sufficient for sustained competitive advantage. They do indeed enhance the firm’s performance in the long haul.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary, Conclusions and Recommendations

A study on the sources of competitive advantage and the performance of the firms in the sugar industry had three key objectives: A determination of the main sources of competitive advantage, the main strategies used by the firms to compete against foreign rivals and among themselves and how the sources of competitive advantage determine the performance of firms under study. Several conclusions can be drawn from the major findings of this important study.

The study established that internal sources of competitive advantage were more important than the external sources. Human resources, prudent financial management and crushing capacity were ranked as the most important internal sources of competitive advantage. These findings are in line with previous empirical studies such as those conducted by Cater [2004]: the study proved that internal sources of competitive advantage are more relevant than external sources. The importance of external sources cannot be ruled out as they play an important role in providing short-term advantage to the firms. Ecological zone [good fertile soil, favorable climate] and committed farming community are the most important external sources of competitive advantage that cannot be ignored due to their contribution in determining the quality and quantity of the cane yield.

It can be concluded from the study findings that the internal sources of competitive advantage are more important and relevant than the external sources. Managers in the
sugar industry are thus urged to pay more attention to the development of the internal sources of competitive advantage if they hope to win tomorrow's wars. More emphasis and resources should be committed to the development of those internal intangible resources. While the development of human resources is critical, it is the creation of a learning organization to enhance the sharing and spread of knowledge among all employees rather than letting it reside in the head of a few individuals who could easily take it away with it and perhaps move over to competition. Knowledge is increasingly becoming a major source of competitive advantage, as it is valuable, rare, non-substitutable and imperfectly imitable. Functional capabilities such as finance, production, procurement and marketing can easily be decoded and acquired by competitors in the open market unlike the hard to decode distinctive competencies.

All the firms operating in the Kenyan Sugar Industry have to contend with new challenges that stem from the fast changing and increasingly more complex business environment. Some of the major new challenges represent opportunities for growth while others could spell doom for various firms. The study found that the firms have many opportunities for growth. Better market prospects [local and export market], fertile soil, favorable weather and committed farming community are some of the opportunities to be exploited by the firms should they decide to expand their milling capacity. They have to similarly deal effectively with major threats such as those arising from COMESA Countries, declining yields, unpredictable weather, cheap sugar imports, land tenure and shifts in government policies.
The study recommends that the firms move with speed to address the key issues of under capacity, high cost of production while developing new and effective strategies to capitalize on new market opportunities for further growth the failure by the firms to act fast through new strategies could results in serious consequences such as their collapse due to more competition.

The firms’ preparedness to ensure their long term survival rather giving way to competitive firepower could in the meantime devise better the right strategies to defend themselves against new foreign entrants and local operators. The firms can use a number of strategies to protect their market share and enhance their market penetration. The study on the main strategies used by the firms found that the increase use of a combination of cost based, government lobbying and differentiation strategies to erect barriers to foreign players. Cost based strategy emerged as the most important and successful strategy used by all the firms. Lobbying the government for protection was ranked as the least successful of all the strategies. Branding as a form of differentiation is gaining popularity among the firms in the sugar industry. Differentiation strategy is implemented through branding and price leadership.

The firms in the sugar industry are urged to stop relying on the government for protection and instead relentlessly focus on cost reduction in order to bring down the unit production cost to the levels of imported sugar. Bringing down the unit cost of production entails amongst others the devising of new and better ways to improve the efficiency within the organization value chain. Process improvement, investment in new technologies and
training of personnel are some of the approaches that the firms could use to reduce cost and differentiate themselves.

It can thus be concluded that cost and differentiation strategies were the main strategies used by the firms to compete against foreign rivals and among themselves. All the firms gave priority to cost based strategy because of its effects on price and the bottom line. Cost based strategies are implemented through cost reduction, International standard certifications, capacity expansion and other cost initiatives was the most popular strategy used by all firms to compete among themselves and against foreign firms. Cost strategy was in all cases used in conjunction with differentiation strategy to lock in the market and lock out competition.

The study findings revealed a positive relationship between a firm’s sources of competitive advantage and its performance. Prudential financial management [financial capability], human resources and crushing capacity are the three most important internal resources that positively affected the performance of the firms in the sugar industry. This study further supports the contemporary theory on the firm competitiveness which states that internal sources of competitive advantage are more relevant and important for the creation of a competitive advantage and superior performance than the external sources of competitive advantage. The general implication of the above findings is that the firms in the Kenyan Sugar Industry should formulate effective strategies for building their internal sources of competitive advantage.
5.2 Limitation of the Study

The study findings could have been complete if all the six chief executives of the firms in question were interviewed. But given the similarities of these firms in terms of the scale of operation, equal locational advantage and other important performance drivers, the 67% response rate achieved is considered to be pertinent enough for the drawing of the much needed inferences. The researcher has no reason to think that the failure of the two chief executives to respond to the semi-structured questionnaires administered through personal interview was too insignificant and any disparities in the primary data is more than compensated by the rich secondary data.

5.3 Recommendation for Further Research.

It is recommended that a similar study be conducted in a different industry but with a larger sample. Large sample size will resolve part of the limitation on this study and particularly that which relate to the number of firms studied. A fresh study could perhaps target firms in the Nairobi stock exchange and data could be collected through structured questionnaire. The combination of large sample size and structured questionnaires would facilitate the drawing of appropriate conclusions on the main sources of competitive advantage for Kenyan based firms and how their sources of competitive advantage influence their competitiveness and performance.

5.4 Recommendations for Policy and Practice

All the firms in the Kenyan Sugar Industry need to urgently develop appropriate policies and strategies for improving their competitiveness and ensuring good performance on a
long-term basis. A policy to develop and harness all their internal sources of competitive
is not a luxury but a necessity for long survival and growth. Managers of the sugar firms
ought to give first priority to the development of organizational capabilities and core
competencies in order to build a sustainable competitive advantage. The classic case of
over-relying on the government through its market protective policies both defective and
suicidal in this age of an increasingly flatter world.
REFERENCES

Adam, B. M. and Barry, J.N. (1996) Competition: a revolutionary mindset that combines competition and cooperation, the game theory strategy that is changing the game business, Double day, New York

Adcock, D. (2000) Marketing strategies for competitive advantage, John Willey and Sons Ltd


Barney, J.B (1996) The resourced-based theory of the firm vol. 7 no. 5, Organizational Sciences


56


Kassamani, H.A. [1999]: *State of strategic marketing in Kenya sugar companies*

Kay, J. (1993) *Foundations Of Corporate Success*, *Oxford University Press*

Kibiru, C.R. [1999]: *Achieving competitive advantage through differentiation of market offerings-the case of chemical fertilizers importing companies in Kenya.*


KSB (2003) *Kenya Sugar Board Year Book of Sugar Statistics, Nairobi*

KSB (2005): *Kenya Sugar Board Year Book of Sugar Statistics, Nairobi*


Mason, E.S (1939) “Price and production policies of large scale enterprises”, *American Economic Review*


Nonaka, I.H. and Takeuchi, H. (1995) *The knowledge creating company, how Japanese companies create the dynamics of innovation*, *Oxford University Press*


Pant, L.W. and Yuthas, K. (2000) *Competitive control: using the management control system to promote competitive advantage*, *Suffolk University, Boston*


Prahalad, C.K. and Hamel, G. (2002) the core competencies of the corporation


Sao Paulo, Brazil, Agricultural Superpower. The Economist, Nov. 5th-11th Ed. 2005


Tzu, S. (1988) *The art of special war*, *Shambhala, Boston and London*


APPENDIX I: LETTER OF INTRODUCTION

REF: GERSHON ANGADO DULO

The above named person is a master’s student in the faculty of commerce, University of Nairobi. He is studying the influence of sources of competitive advantage on the performance of the firms in the Kenyan sugar industry as part of the requirement of the degree.

You are therefore requested to assist him by completing the questionnaires which form an integral part of the research project.

Please note that the information and data required are for academic purposes only and will thus be treated with the strictest request.

The university will appreciate your kind assistance to the student.

Yours sincerely

Dr. Martin Ogutu
Supervisor
APPENDIX II: QUESTIONNAIRE

PART A: ORGANIZATIONAL PROFILE
Q1. Name of the sugar company
Q2. Number of years since established
Q2. Name of the respondent
Q3. Title of the respondent
Q3. Number of years with the firm
Q4. The total workforce
Q5. Is the firm owned by the [A] Government [B] private [C] Both government and private?

PART B: THE MAIN SOURCES OF COMPETITIVE ADVANTAGE
Q1. List the main sources of competitive advantage for your company
[I]
[II]
[III]
[IV]
[V]
[VI]
[VII]
[VIII]
Q2. Which of the above sources of competitive advantage are easier to be copied by your competitors?
Q3. Write one thing that your organization does better than all the sugar firms in the industry.

Q4. Which of the above sources of competitive advantage are more difficult to be copied by your rivals and why?

PART C: COMPETITIVE STRATEGIES USED BY FIRMS IN THE KENYAN SUGAR INDUSTRY

Q1. What are the main threats to firms in the Kenyan sugar industry?
   [I]
   [II]
   [III]
   [IV]
   [V]

Q2. What are the main opportunities for firms in the Kenyan sugar industry?
   [I]
   [II]
   [III]
   [IV]
   [V]

Q3. What are the main strategies used by sugar firms to compete against foreign and local competitors?
   [a] Strategies used by local firms to compete against foreign rivals
   [I]
   [II]
Q4. Which are the most successful strategies and why?

Q5. Which are the least successful strategies and why?

PART D: The performance of firms in the Kenyan sugar industry

Q1. How would you rate the performance of your company over the last three years?

Q2. Which factors within your organization has contributed to the above performance?

Q3. The company production output over the last three years [in tones].
Q4. The company sales performance over the last three years [Kshs]

2003

2004

2005

Q5. The company market share over the last three years

2003

2004

2005

Q6. The company Net-profit over the last three years [Kshs]

2003

2004

2005
APPENDIX III: RESULTS

Figure 4.4: Mean Production Output (Tons) For 3 Years

<table>
<thead>
<tr>
<th>Company</th>
<th>Mean Production Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumias Sugar Company</td>
<td>246728</td>
</tr>
<tr>
<td>Chemelil Sugar Company</td>
<td>44296</td>
</tr>
<tr>
<td>Nzoia Sugar Company</td>
<td>145512</td>
</tr>
<tr>
<td>Sony Sugar Company</td>
<td>66733</td>
</tr>
</tbody>
</table>

Figure 4.5: Mean percentage market share for 3 years

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumias Sugar Company</td>
<td>39.67%</td>
</tr>
<tr>
<td>Nzoia Sugar Company</td>
<td>18.33%</td>
</tr>
<tr>
<td>Sony Sugar Company</td>
<td>13.33%</td>
</tr>
</tbody>
</table>