

**SOURCES OF SUSTAINABLE COMPETITIVE  
ADVANTAGE AMONG MILK PROCESSING COMPANIES  
IN KENYA**

**BY**

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Requirements for the Award of the Degree of Master of Business  
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## **DECLARATION**

This management research project is my original work and has not been presented for an award of a degree at the University of Nairobi or any other institution of learning.

Sign.....Date.....

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**D61/75857/2009.**

This management research project has been submitted for examination with my approval as the university supervisor.

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The respondents from the participating companies would not be left out as their hospitality and willingness to complete and return the questionnaires despite their busy schedules facilitated the completion of the report in time.

To all, my you be blessed every day given to you by Almighty.

## **DEDICATION**

I dedicate this study to my late father Mr. Meshack Bogecho Mokaya who without his wise counsel in my formative years of school, I could not have made it this far.

May his soul rest in eternal peace.

## ABSTRACT

The study sought to achieve three objectives: to determine the sources of sustainable competitive advantage; to establish the strategies for achieving sustainable competitive advantage and to determine the challenges of gaining and sustaining a Sustainable Competitive Advantage among milk processing companies in Kenya.

A census survey was conducted to facilitate the achievement of the study objectives. The population of interest comprised of all milk processing companies in Kenya. There were a total of 23 milk processing companies in Kenya at the time of the study (e- Dairy Systems Directory 2009/2010). The study made use of primary data which were largely quantitative. These data were collected using semi-structured questionnaire. The respondents were Corporate Planning/Strategy Managers, Commercial Managers and/ or National Sales and Marketing Managers of the targeted companies. Analysis of data was guided by the objectives of the study. The study used descriptive statistics to analyze the data due to the descriptive nature of the data that were collected. The data analyzed were presented in tabular form for ease of interpretation and reporting.

The study found out that of the 18 milk processing companies in Kenya that completed and returned the questionnaires, 77.8% had been in operation for more than five years while 11.1% and 5.65% had been in operation for less than three years and between 3 to 5 years respectively. It was also established that 66.7% were privately owned, 27.8% were both foreign and locally owned while 5.6% were government owned. The results further indicated that 61.1% operated within Kenya, 27.8% operated within East Africa region and 11.1% operated beyond East Africa. On the formulation of strategies to counter competition, 94.4% responded in the positive while 5.6% responded in the negative.

The study concludes that the milk processing companies in Kenya employ a combination of sources of sustainable competitive advantage to stay competitive in the turbulent business environment. There is no single source of sustainable competitive advantage that could be used universally in the dairy industry to achieve the desired objectives among all milk processing companies in Kenya. The sources include effective leadership, continuous learning, highly motivated and loyal employees, superior products or customer service, business networks and coalitions, superior skills/capabilities and high level of customer service quality. Further the study concludes that the milk processing companies in Kenya have employed various strategies for sustainable competitive advantage. The strategies include product development, product differentiation, market development, cost leadership and related diversification. Others are strategic alliance, unrelated diversification and cooperation / tacit collusion strategies.

The study recommends that milk processing companies in Kenya need to employ a variety of sources of sustainable competitive advantage which complement each other to achieve sustainability in the competitive business environment. The sources include effective leadership, continuous learning, highly motivated and loyal employees and superior skills/capabilities of personnel.

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## **Acronyms & Abbreviations**

BAWC-K	British Airways World Cargo – Kenya
BI	Business Intelligence
CA	Competitive Advantage
EAPI	East African Packaging Industries
GoK	Government of Kenya
KCC	Kenya Cooperative Creameries
KDB	Kenya Dairy Board
MIS	Marketing Information Systems
MOLD	Ministry of Livestock Development
SCA	Sustainable Competitive Advantage
SPSS	Statistical Packages for Social Scientist
SSMV	Small Scale Milk Vendors

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Present day complexities of the dynamic and competitive business environment is exerting enormous pressure on firms, especially in highly competitive industries, to put forth a great deal of effort in developing their competitive strategy over their competitors to achieve a sustainable competitive advantage (SCA) and thereby to enhance business performance (Low & Nair,2010). The recent times have seen challenges in the business environment characterized by change ranging from increased competition, globalization, fragmented markets, rapid diffusion of new technology, shifting of regulatory frameworks, growing dependency on non-price competition to the development and use of knowledge (Ansoff, 1990).

The environmental turbulence has forced many businesses to scrutinize their competitive strategies more closely and determine the sources that would provide a sustainable competitive advantage in the business environment. Dickson (1992) stated that the first and central to the developing a sustainable competitive advantage (SCA) in rapidly and often changing circumstances is the ability to learn fast and adapt quickly so as to create new advantages that will keep them one step ahead of competitors. An organization is said to have a sustainable competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy (Barney, 1991).

Hall (1980) and Henderson (1983) solidified the need for firms to possess unique advantages in relation to competitors if they are to survive. To this effect, organizations are undertaking strategic changes to align business strategies to match their resources and activities to the environment (Johnson and Scholes, 2002). It is in this regard that organizations are developing and implementing strategies to achieve a sustainable competitive advantage and enhance their survival (Porter, 1985).

### **1.1.1 The Concept of Sustainable Competitive Advantage**

The concept of sustainable competitive advantage (SCA) is of vital importance to the long-term success of any business enterprise since there are considerable investments required for its achievement. It is therefore understood that across sectors, most organizations should recognize that attaining SCA is the most challenging issue they face in the 21<sup>st</sup> century. Many professionals, scholars and other management gurus (Alderson, 1965; South, 1981; Barney, 1991; Coyne, 1986; Porter, 1980 and 1985; Walley and Thwaites, 1996; and Foss and Knudsen, 2001) have focused on the broad range of issues pertaining to the Sustainable Competitive Advantage.

Alderson (1937) hinted at a basic tenet of SCA, that a fundamental aspect of competitive adaptation is the specialization of suppliers to meet variations in buyer demand. Sustainable Competitive Advantage allows a firm to maintain and improve its competitive position in the market (Kotelnikov 2004). Later, Alderson (1965) recognized that firms should strive for unique characteristics in order to distinguish themselves from competitors. He was considered to be ahead of his time with respect to the suggestion that firms search for ways to differentiate themselves from competitors.

Porter (1985), argued that a competitive advantage exists when a firm is able to deliver the same benefits as competitor but at a lower cost (cost advantage) or deliver benefits that exceed those of the competing products (differentiation advantage). A competitive advantage is achieved when a firm offers consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. Thus, a competitive advantage enables a firm to create superior value for its customers and superior profits for itself. Day and Prakesh (1994) on the other hand identified superior skills and superior resources as potential sources of SCA.

Barney (1991) stated that an organization can be said to have a SCA when its competitive strategies are unique, offer long term benefits, other firms within the industry cannot duplicate the strategies (at least in the short term) and identified strategies are continually improved to keep the firm ahead of its competitors. Barney (1997) further argued that for a competitive strategy to be sustained, it must be rare and or costly to imitate whether through imitation or substitution. He thus defined SCA as the prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors along with the inability to duplicate the benefits of this strategy.

### **1.1.2 Overview of the Dairy Industry in Kenya**

Until 1958, when the Dairy Industry Act (Cap. 336) was enacted, traditional milk marketing in Kenya had been largely unregulated. The Act, introduced mainly to protect the interests of large-scale settler dairy producers, still to a large extent regulates the dairy industry today, despite huge changes in the sector's structure since then. The objective of

the reform was to encourage private investments (including co-operatives) in milk processing and marketing and deregulation of both producer and consumer prices. The underlying argument was that enhanced competition would improve efficiency in milk procurement, processing and distribution, which in turn would result into regular and more remunerative prices to the farmers. It was also hoped that the efficiency gains would translate into higher quality milk products and lower consumer prices (MoLD, 2008).

Liberalization of the dairy industry in the mid-1980s and full price decontrol by 1992 opened up the doors of the processed milk market to private companies. The entry into the market of new processors heralded the gradual collapse of Kenya Cooperative Creameries (KCC) through the 1990s which left a vacuum in the milk processing industry that needed to be filled. This gap and the demand for milk and milk a product was quickly filled by a proliferation of unlicensed small-scale milk vendors (SSMVs) and large-scale, licensed and regulated private sector milk processors. The unlicensed (SSMVs) sold raw milk and large-scale, licensed and regulated private sector milk processors processed and packaged their milk and other dairy products before selling it to the market (Leksmono et al, 2006) . It is now nineteen years since the introduction of these reforms and it is good time to take stock on what has been achieved during that period.

Since the liberalization of the dairy industry in 1992, new institutional arrangements in milk collection, processing and marketing have emerged. At the farm gate level, informal marketing channels dominate with most farmers using this channel. These channels include hawkers, brokers, self-help groups as well as neighbors and business

establishments like hotels. In total, the informal market channel is estimated to control 60% of the total marketed milk. Dairy cooperatives, which used to be an integral part of the formal milk collection and marketing, have been relegated to buyers of last resort (Karanja, 2003).

The dairy industry in Kenya has had a fair share of challenges in the current changing economic times and especially the intense competition for survival and growth within the industry (Njuguna, 2009). Despite the fact that selling of raw milk is prohibited especially in urban areas, there is a soaring demand for the same which eventually proliferates to market centers in villages across the country. It is virtually impossible for the Kenya Dairy Board (KDB) which is the government-appointed body responsible for regulating the dairy industry – to control them, and the private dairy processors have come to regard the SSMVs as unfair competition. The SSMVs provide a market outlet for the majority of smallholder dairy farmers. Most operate from fixed premises but some transport milk to urban centers by bicycle or public transport, usually in plastic containers. They mainly operate early in the morning in response to consumer demand, but also to avoid harassment by KDB inspectors (Leksmono, et al, 2006).

Nevertheless, the industry has been evolving quite fast and adapting to the challenges in its environment. For the dairies to remain competitive in the market, they need to diversify their product through value addition using simple and cost effective methods. The issues and challenges facing the dairy industry have never been as turbulent and unpredictable as they are today due to the globalization and liberalization of the economy, political turbulence , intensive competition, hence the need for development of strategies that lead to Sustainable Competitive Advantage.

## **1.2 Research problem**

The most fundamental question emerging in strategic management is how firms achieve and sustain competitive advantage. The organizations that have the capability of doing certain things better to offer customer value than their competitors succeed in a competitive marketplace over the long time. Whether and how a firm's competitive advantage is eroded depends on the stability of market demand, and the ease of replicability and imitability (Teece et al, 1997).

Firms in the dairy milk industry in Kenya like many other companies, are constantly faced with challenges in developing, adopting and implementing SCA strategies to enable them survive in their turbulent business environment. To achieve this sustainable position, the companies must clearly and vividly identify the sources that form a fundamental foundation upon which strategies are formulated and implemented. The private processors are constantly experiencing unfair competition from small-scale milk vendors and must therefore endeavor to develop competitive strategies to counter the same.

Economic growth, urbanization and a rapidly growing middle class in emerging markets in Kenya has combined to generate growth in demand for liquid dairy products. Surging demand for packaged milk and milk products is heightening competition among milk processing companies in Kenya. Hence the need to identify and develop sources of SCA becomes even more crucial as players in the dairy industry face stiff competition. This was the basis upon which a study was proposed to investigate into sources of sustainable competitive advantage among dairy milk processors in Kenya.



While a number of studies have been conducted in Kenya on the concept of SCA (Oyeyo, 2008; Kimari, 2010; Ngigi, 2006; Ndung'u, 2006; and Kimani, 2006), they have focused on different contexts and perspectives of SCA. Oyeyo (2008) focused on sources of SCA in the banking industry in Kenya; Kimari (2010) focused on sources of SCA in the mobile telephony sector in Kenya; Ngigi (2006) focused on SCA under conditions of change within the packaging industry; Ndung'u (2006) focused on sustenance of competitive advantage within the airline industry; while Kimani (2006) investigated on the application of marketing information systems in creating SCA within the mortgage industry. The researcher was not aware of any study carried out on the sources of SCA among milk processing companies in Kenya. Consequently this study therefore sought to bridge this gap by answering the question: What are the sources of sources of sustainable competitive advantage among dairy milk processing companies in Kenya?

### **1.3 Objective of the Study**

The study sought to achieve the following objectives;

- i. To determine the sources of SCA among dairy milk processing companies in Kenya.
- ii. To establish the strategies for achieving SCA among dairy milk processing companies in Kenya.
- iii. To determine the challenges of gaining and sustaining a SCA among dairy milk processing companies in Kenya.

## **1.4 Importance of the Study**

The study sought to raise ideas and issues in relation to the sources of SCA in the hope that the various stakeholders and persons directly addressing the subject of SCA in various organizations will continue with the discussion. The findings in the study, is hoped will be beneficial to the various stakeholders.

The management of the dairy milk processing companies will gain better understanding of the sources of SCA that firms have adopted. It will enable them evaluate their competitive position in the industry and lay counter-strategies from an informed position.

The study will contribute to the existing literature in the field of Strategic Management especially on the growing body of research on sources of SCA. It may also be used as a source of reference for further researches and stimulate further research in this area forming a basis of good background in future research work as will be recommended at this end of the study.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 The Concept of Sustainable Competitive Advantage**

The concept of Sustainable Competitive Advantage (SCA) has created the need for organizations to remain competitive and successful in the long term. In the recent years, the theory of sustainable competitive advantage (SCA) has emerged as one of the most promising theoretical frameworks in the management literature especially in the field of strategic management.

The idea of a sustainable Competitive Advantage was mooted in 1984 by Day when types of strategies that could help to sustain the competitive advantage were being suggested. It emerged again in 1985, when Porter discussed the basic types of competitive strategies firms can possess, low-cost or differentiation, to achieve sustainable competitive advantage (SCA). Barney (1991), became the closest to a formal definition when he offered that SCA is achieved when a firm is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. Thus sustainable competitive advantage exists only after efforts to replicate that advantage have failed.

Barney (1997) further argues that for a competitive strategy to be sustained, it must be rare and or costly to imitate whether through imitation or substitution. Based on both Barney's work in 1997 and the definitions of each term provided in the dictionary, the formal conceptual definition is offered that a Sustainable competitive advantage is the prolonged benefit of implementing some unique value-creating strategy not

simultaneously being implemented by any current or potential competitors along with the inability to duplicate the benefits of this strategy.

Lynch (2000), posits that SCA involves every aspect of the way an organization competes in the marketplace through pricing, distribution, customer value, manufacturing quality and product ranges. Analyzing competitors enables the organization to develop a competitive advantage against competitors especially advantages that can be sustained over time. The real benefits come from advantages that competitors cannot easily imitate. SCA needs to be deeply embedded in the organization's resources, skills, culture, and investment over time.

The first and central to the developing a sustainable competitive advantage in rapidly and often changing circumstances is the ability to learn fast and adapt quickly so as to create new advantages that will keep them one step ahead of competitors (Dickson , 1992). However, the winning business strategies are grounded in SCA which is key to the success or failure of firms. These arguments are the fundamental building blocks upon which SCA is grounded to achieve and maintain sustainability in the business environment.

## **2.2 Sources of Sustainable Competitive Advantage**

A body of literature to address sources that may be used to attain a Sustainable Competitive Advantage (SCA) has been developed by many (Barney, 1991; Hooffman, 2000; Barney, 2001; Collis and Montgomery, 1995) scholars and professionals in the past. Hoffman (2000) summarized the development of the concepts of sustainable competitive advantage until 1999, which have been evolved from as early as 1965. From

the summary, the development of SCA contributed by those scholars could be categorized into two major concepts: First, Cost and differential advantage concepts that was focused on by an earlier group of scholars from 1960s to early 1980s and second, resource based concept that was focused on by a latter group of scholars from mid 1980s.

The concept of Sustainable Competitive Advantage has been researched on in different industry contexts within and outside Kenyan. In Kenya, various scholars (Kimari, 2010; Oyeyo, 2008; Ndung'u, 2006; Kimani, 2006 and Ngigi, 2006) investigated on different aspects of sustainable competitive advantage among identified Kenyan companies. At the international level, several studies (Khandekar and Sharma, 2005; Wunyu, 2010; Javalgi and Radulovich, 2005; Sharkie, 2003; Azizah and Norshuhada, 2010) had been carried out in relation to Sustainable Competitive Advantage.

The resources that will create a sustainable competitive advantage have a number of key characteristics. First, they enable the provision of competitively superior value to customers (Barney, 1991).Second; they are resistant to duplication by competitors (Hall, 1993).Third, their value can be appropriated by organizations (Collis and Montgomery, 1995). Barney (1991) on his examination on the link between firm resources and SCA, he further posits that rareness, value, substitutability and imitability are the four empirical indicators of the potential of firm resources to generate Sustainable Competitive Advantage.

Organizational learning constitutes an idiosyncratic and complex capability difficult to imitate, replicate and transfer (Day, 1994). Organizational learning is the acquisition of knowledge by individuals and groups who are willing to apply it in their jobs in making

decisions and influencing others to accomplish tasks important for the organization (Miller, 1996). Through organizational learning a firm can develop hard to imitate knowledge resources and capabilities (human capital as well as organizational capital) that create value which in turn lead to superior performance. Senge (1990) posits that learning provides the catalyst and the intellectual resource to create SCA. Ollila (1994) underscored the role of organizational learning in achieving sustainable competitive advantage by stating that the rate at which an organization learns may become the only sustainable source of competitive advantage.

Whereas a single instance of organizational learning may be relatively easy for other organizations to imitate, continuous organizational learning has cumulative effects that are much more difficult to imitate. Goh (2003) noted that to remain competitive; many organizations are adopting a strategy of continuous learning as an important capability that can serve as a source of sustainable competitive advantage. Cumulative organizational learning is an activity driver that can sustain a competitive advantage (Foss & Knudsen, 2001).

Tacit knowledge can be used as a source of SCA (DeGeus, 1988). Tacit knowledge is grounded in experience and difficult to express through mere verbal instruction; individuals know it but cannot articulate it. Tacit knowledge is much harder to detail, difficult to codify, copy, or distribute, it is passed along to others through direct experience hence, it can be a sustainable source of competitive advantage that is quite difficult for competition to replicate.

Organizational innovation, with specific emphasis placed on the role and effectiveness of

knowledge management systems as a determinant of innovation practices, may then contribute to the development of sustainable competitive advantage (Adams and Lamont, 2003). Employees of a firm are encouraged to learn new skills continually to be innovative and to try new processes and work methods in order to achieve the strategic business objectives of the organization. Such radical innovations come are a sources of Sustainable Competitive Advantage.

World-class research and development activities represent a knowledge-based capability that serves as a competitive advantage for firms pursuing innovation (Oliver & Christine, 1997). To gain a market leadership position, a firm must be able to integrate in a balanced way different types of know-how that would transform stand-alone technologies, products and services into seamless, value-rich solution finding entities (Hunt and Robert, 1995). The primary intent of research and development is to develop new ideas about products, processes, or services. Both knowledge and social capital contribute to the success of research and development efforts. Thus, the ability to combine existing knowledge to generate new applications and exploit the unrealized potential of existing knowledge is another knowledge capability that can contribute to a firm's ability to achieve sustainable competitive advantage (Oliver and Christine, 1997).

Human resource capability is found to be a significant predictor of sustainable competitive advantage. Khandekar and Sharma (2005) argued that human resource capabilities are positively correlated to organizational performance. Human capability is a general term that refers to all of the resources that individuals directly contribute to an organization: physical, knowledge, social, and reputational. Among a firm's intangible

resources, human capability may be the most important and critical for competitive advantage because it is the most difficult to imitate. Oyeye (2008) stated that sources of SCA are internally generated focusing on capabilities and competencies ranging from superior skills/capabilities and including the ability to analyze and predict behavior of competition.

Effective knowledge management systems to enhance the transfer of knowledge across boundaries of individuals, departments, units and organizations lead to sustainable competitive advantage. This tripartite concept together with intellectual capital indicates that while it is individuals who generate retain and use knowledge (human capital); this knowledge is enhanced by the social interactions and networks (social capital) to generate the institutionalized knowledge possessed by an organization (Armstrong, 2001). The knowledge-based view depicts firms as repositories of knowledge and competencies. According to this view, the organizational advantage of firms over markets arises from their superior capability in creating and transferring knowledge (Ghoshal and Moran 1996).

Prahalad and Hamel (1990) argue that corporate culture plays a key role in creating SCA. The strength of an organization's culture is one of the most fundamental competitive advantages. A firm must however build and preserve an innovation-adept culture, a culture of commitment, one where employees passionately pursue the organization's cause and mission. Only then can a firm be better positioned for success. Sustainable superior financial performance as a culture of a firm can be a source of SCA.

Knowledge-based capabilities are recognized as among the most strategically important



capabilities for creating a sustainable competitive advantage (Grant, 1996). Strategic capabilities refer to those systems or processes that an organization creates to leverage its resources to produce a sustainable competitive advantage. The sustenance of a competitive advantage depends on whether that particular advantage is resource-based or activity – based. They further state that activity – based advantages will take longer and are more costly to imitate or duplicate. Proponents of a knowledge-based approach to sustainable competitive advantage argue that the primary purpose of a firm is to create and apply knowledge.

Business networks consist of multiple relationships, with each participating firm gaining the resources needed to build core competencies and obtain a sustainable competitive advantage. Morgan and Hunt (1996) examined the role of relationship building as a means of obtaining resources in order to create a sustainable competitive advantage. Hoffman (2000) further proposed a general theoretical model of how dyadic relationships within a network environment affect sustainable competitive advantage. It is difficult for outsiders to replicate the process of building a long-term relationship. Relationships formed to acquire organizational, relational, or informational resources will commonly result in sustainable resource-based competitive advantages. The link between organization's unique resources and core capabilities to different types of strategies over time leads to sustainability (Ndung'u, 2006).

Sustainable competitive advantage can also be achieved through effective leadership. It is one of the precursor conditions necessary for long-term competitiveness in many organizations. In particular, in the knowledge-economy, value-based style of leadership is

proving to be most effective. It both as motivation for constant innovation up and down all organizational levels and as a source of unity and power of intellect, will, persistence and vision to creates synergies that propel successful companies in their quest for, and achievement of competitive advantage. Shirkie (2003) postulates that the development of sustainable competitive advantage is a vital management function and an important requirement is the nurturing of a knowledge creating environment to enable the organization to exploit and develop resources better than rivals and to create sufficient knowledge to address the industry's future success factors.

The organization and management of the firm in such a way that all members are motivated to promote change and they are supported in their efforts to do so is the key success factors in this endogenous, incremental and continuous technological and operational change. The ability to operate simultaneously in all innovative arenas such as new technology, new product, new organizational forms, and new customer relationship management makes continuous improvement of a firm (CIF) remarkable. Winyu (2010) underscored that stakeholder management helps to sustain the competitive advantage through a firm's resource capacity-resource commitment, developing capabilities and building relationship. He further argued that stakeholder management generates several isolating mechanisms that preserve competitive advantage, including time compression diseconomies, casual ambiguity, social complexity and transaction costs.

The next major source of competitive advantage is coming from a more outward orientation, specifically toward customers (Woodruff, 1997). The level and quality of service offered to customers by a firm can be a key focus to value generation and subsequent SCA. Through a customer orientation, firms can gain knowledge and

customer insights in order to generate superior innovations (Varadarajan and Jayachandran, 1999). Slater and Narver (1995) aids Woodruff's call by suggesting a new theory of the firm that is customer-value based. With respect to performance differences, this theory suggests that those firms that provide superior customer value will be rewarded with superior performance as well as a sustainable competitive advantage. Internet firms' competitive advantage is built upon a unique product value offering, trust in the source, trust in the medium of exchange, and loyalty that is reinforced through fulfilled customer expectations (Javalgi and Radulovich, 2005).

Hunt and Morgan (1995) observe that market orientation employs intangible resources such as organizational and informational resources and can serve as a source of sustainable competitive advantage. Kohli and Jaworski (1993) see market orientation as the implementation of the marketing concept by activities such as generating information through analyzing changes in customer needs and wants, disseminating information through sharing information with all departments in an organization, and actually responding to customers' needs. Ngugi (2006) postulated that the company that had identified unique resources formed the basis of SCA hence providing unique standings in the industry. Unique market opportunities suited the strengths and needed to be exploited to develop a Sustainable Competitive Advantage.

Narver and Slater (1995) view market orientation as an organizational culture that contains three components: first, a customer orientation by understanding the target market; second, competitor orientation by understanding the strengths, weaknesses, capabilities, and strategies of key competitors; and third, interfunctional coordination which means using resources of all departments to create value for target customers.

## **2.3 Strategies for Sustainable Competitive Advantage**

The major challenge faced by many organizations in the business environment is how to achieve and sustain a CA. As such, there is need for organizations to come up with strategies that are sustainable to ensure their own survival in the midst of emerging fierce and complex competition. However, the ability of a strategy to add value to a firm must be linked with rare and costly-to-imitate organizational strengths and weaknesses in order to generate a SCA. Distinguished scholars and professionals (Barney, 1997; Porter, 1985 & Ansoff, 1990) have developed and documented a number of strategies as discussed in this section.

### **2.3.1 Cost Leadership Strategy**

According to Porter (1985), a competitive advantage exists when a firm is able to deliver the same benefits as competitor but at a lower cost (cost advantage). Barney (1997) concurs that the ability of a valuable cost-leadership competitive strategy to generate a sustained competitive advantage depends on that strategy being rare and costly to imitate, either through direct duplication or substitution.

Porter (1980) observed that a firm pursuing cost-leadership strategy focuses on gaining advantages by reducing its economic costs below the cost of all of its competitors. There has to be few layers in the reporting structure and a focus on narrow range of business functions in its organizational structure. On the management control system, there has to be tight cost control systems and presence of a cost leadership philosophy.

### **2.3.2 Product Differentiation Strategy**

This is a competitive business strategy whereby firms attempt to gain a competitive advantage by increasing the perceived value of their offerings relative to the perceived value of other firms' offerings (Porter 1980). Firms that implement this strategy successfully can reduce a variety of environmental threats and exploit a variety of environmental opportunities.

The bases of product differentiation (product features, linkage between functions, timing, location, product mix, links with other firms, and reputation) varies with respect to how likely it is to be rare and how likely it is to imitate (Porter, 1980; Barney, 1997). The important thing for any organization adopting this strategy is to ensure that customers really do have unique needs and wants and that existing competitor products do not meet this expectations.

### **2.3.3 Strategic Alliances**

According to Barney (1997), a strategic alliance exists whenever two or more independent organizations cooperate in the development, manufacture, or sale of products or services. When the value of their resources and assets combined is greater than the value of their resources and assets separately, the firms have the incentive to cooperate in strategic alliances.

The sources of inter-firm synergies that can motivate strategic alliances include exploiting economies of scale and managing uncertainty. Strategic alliances are sources of SCA only when they are economically valuable. (Barney, 1997) further observes that,

for a strategic alliance to be a source of SCA, it must be rare and costly-to-imitate, and the firm must be organized to fully exploit the alliance.

#### **2.3.4 Market Development Strategy**

The marketing of present products often with only cosmetic modifications to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion forms the component of market development. Pearce and Robinson (1997) posit that, market development strategy allows firms to practice a form of concentrated growth by identifying new uses for existing products and new demographically, psychographically, or geographically defined markets.

Firms that practice market development open branch offices in new geographical areas thus switching from advertising in trade publications to advertising in newspapers or vice versa. Changes in media selection, promotional appeals, and distribution are frequently used to initiate this approach.

#### **2.3.5 Product Development Strategy**

This strategy is often adopted to prolong the life cycle of current products or to take advantage of a favorable reputation or brand name. It involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. The idea is to attract satisfied customers to new products as a result of their positive experience with the firm's offering (Pearce and Robinson, 1997).

### **2.3.6 Concentric Diversification Strategy**

The strategy represents distinctive departures from a firm's existing base of operations, typically the acquisition or internal generation of a separate business with synergistic possibilities counterbalancing the strengths and weaknesses of the two businesses. It involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets, or products. Pearce and Robinson (1997) observe that the ideal concentric diversification occurs when the combined company profits increase the strengths and opportunities and decrease the weaknesses and exposure to risk. With this strategy, the selected new businesses possess a high degree of compatibility with the firm's current businesses.

### **2.3.7 Conglomerate Diversification Strategy**

Unlike concentric diversification, conglomerate diversification gives little concern to creating product-market synergy with existing businesses (Pearce and Robinson, 1997). It involves a firm, particularly a very large one, acquiring a business because it represents the most promising investment opportunity available. The principal concern, and often the sole concern, of the acquiring firm is the profit pattern of the venture.

### **2.3.8 Tacit Collusion Strategy**

The tacit collusion strategy exists when several firms in an industry send and interpret signals of intent to cooperate in order to reduce industry output below the competitive level and raise prices above the competitive level. In some situations, firms can obtain competitive advantage and above-normal profits not by contending with other firms but

by cooperating with some to reach a common goal or objective. The industry attributes that facilitate the development and maintenance of tacit collusion include small numbers of firms; product homogeneity; cost homogeneity; price leaders; industry social structure; high order frequency and small order size; large inventories and order backlogs; and entry barriers (Barney, 1997).

## **2.4 Challenges of Achieving Sustainable Competitive Advantage**

Views on the concept SCA as advanced by different authors remain vague and hence the whole idea lacks universality. While Day & Wesley (1988), Collis & Montgomery (1985) and Warnefelt (1984) advocates for superiority of skills and uniqueness of resources in the resource-based view as a means of SCA, Porter (1985) on the other hand prefers supporting low-cost and differentiation strategies as a means of SCA. Barney (1991) holds the middle ground that, whichever CA strategy a firm adopts, it must provide some form of uniqueness, rare resources, create barriers against imitation and substitution. These divergent views by different authors on the same subject leaves a lot to be desired and thus creating a room for further research to ascertain the true nature of Sustainable Competitive Advantage.

Sustainable competitive advantage does not last forever even though it is founded on valuable, rare, and costly-to-imitate resources and capability Barney (1997). The dynamic nature of the of the business environment in which a business operates, makes SCA a mirage due to the ever turbulent and rapid changing external business environment with competitors striving to bridge the gap that brings about sustainability of the competitive advantage of a particular firm. Human capital is more mobile than other intangible



resources and therefore may seem an unlikely source of sustained competitive advantage (Teece et al, 1997) .This means that it is not enough to acquire individuals who have skills, knowledge and abilities neither is it enough to select employees who have knowledge resources, or even to help them to acquire such resources by providing training or offering rewards for increasing their knowledge.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

The study was carried out through a descriptive cross-sectional survey. A descriptive cross-sectional survey is where data is collected from a cross-section of members of the population at one point in time. This research design was descriptive in nature because of the way in which data were collected. It was most appropriate in this study because the number of milk processing companies in Kenya was relatively small and did not warrant sampling. Oyeyo (2008) adopted this research design on studying the sources of SCA in the banking industry in Kenya.

### **3.2 Population of Study**

The population of study was all milk processing companies in Kenya. There were a total of 23 milk processors according to the e-Dairy System directory (2009/2010) including KCC which was a state corporation. (Appendix III). The population of study warranted a census. Nachiamis (1990) defined a census as the recording of demographic data describing a population in a defined territory.

### **3.3 Data Collection**

The study made use of primary data which were largely quantitative. These data were collected using semi-structured questionnaire. The respondents were Corporate Planning/Strategy Managers, Commercial Managers and/or National Sales and Marketing Managers of the targeted companies. It had both open and close-ended questions.

The questionnaire was divided into three parts; Part I was intended to collect background information on each milk processor, Part II was intended to collect information on the sources of sustainable competitive advantage and Part III was intended to collect information on the strategies for sustaining the competitive advantage and the challenges of achieving SCA. The questionnaire was administered to the participating companies by 'drop and pick' method to obtain the information and data required.

### **3.4 Data Analysis**

Data analysis is the process of systematically searching, arranging, organizing and breaking data into manageable units, synthesizing the data, searching for pattern, discovering what is important and what is to be learnt. Analysis of data was guided by the objectives of the study. The study used descriptive statistics to analyze the data due to the descriptive nature of the data to be collected. Interpretation and analysis of the data was carried out using a Statistical Package for Social Scientist (SPSS) to ensure objectivity.

The first objective of establishing the sources of competitive advantages was analyzed using frequencies and percentages to describe the most predominant sources of sustainable competitive advantage as perceived by the respondents. The second objective of was also analyzed using frequencies and percentages to point out the most crafted strategies to attain and maintain such an advantage. In both cases, mean scores were used to depict the relative potency of particular sources of sustainable competitive advantages and the most crafted strategies to attain and maintain such an advantage. The data analyzed was presented in tabular form for ease of interpretation and reporting.

## **CHAPTER FOUR: FINDINGS AND DISCUSSIONS**

### **4.1 Introduction**

This chapter presents findings and discussions as per the research methodology. The study sought to achieve three objectives: to determine the sources of sustainable competitive advantage; to establish the strategies for achieving sustainable competitive advantage and to determine the challenges of gaining and sustaining a Sustainable Competitive Advantage among milk processing companies in Kenya. There were a total of 23 questionnaires administered to the targeted respondents out of which 18 were duly filled and returned. These formed a 78.2% response rate which was considered sufficient for analysis and draw a conclusion. Other respondents received but never responded while others declined to participate in the study citing a variety of reasons.

The respondents were first required to respond to general organizational issues. They were then presented with statements describing various sources of sustainable competitive advantage and strategies adopted to attain such advantages. They were required to score in a scale of 1 to 5 indicating the extent to which the statements apply in their organizations. The score indicated what were considered to be the major source of sustainable competitive advantage and the strategies most adopted to achieve the said advantages. The data interpretation and analysis was quantitatively analyzed using Statistical Package for Social Scientist to ensure objectivity. The data was presented in frequency tables.

## **4.2 Demographic Information**

The study sought information on the respondent companies in relation to aspects that were considered to have a potential impact on the sources of sustainable competitive advantage and the strategies adopted to achieve the same. These aspects were in relation to the company's year of incorporation, size of the company in terms of number of branches and number of employees, scope of operation and whether the company came up with strategies that were different from those of competition during strategic planning. This information formed the fundamental basis for understanding the sources of sustainable competitive advantage among the milk processing companies in Kenya. The dairy industry in Kenya comprised of 23 milk processing companies spread across the country as at the time of the study (Appendix III).

### **4.2.1 Year of Incorporation**

The objective of this enquiry was aimed at establishing the year in which each individual company was operationalized in which the respondents were required to state the year the company started its operations. This helped to gauge the competitiveness in the business environment and establish whether the respective organizations have withered the competitive storm. Table 4.1 presents the number of years, frequencies and percentages the companies were incorporated.

**Table 4.1: Year of incorporation**

<b>AGE</b>	<b>Frequency</b>	<b>Percent</b>
2.1 - 3 YEARS	2	11.1
3.1 - 4 YEARS	1	5.6
4.1 - 5 YEARS	1	5.6
5 YEARS AND ABOVE	14	77.8
TOTAL	18	100.0

Source: Research Data (2011)

The results in Table 4.1 reveal that a majority of companies have been in existence for more than 5 years comprising 77.8% while 11.1%, 5.6% and 5.6% have been in operation for less than three years and between 3 to 5 years respectively. From the results there is a clear indication that majority of the milk processing companies in Kenya have withered the competitive storm in the business environment.

#### **4.2.2 Ownership**

The milk processing companies in Kenya exhibit different competitive characteristics which could be determined by ownership structure. Respondents were required to indicate whether the companies are privately owned (local), foreign owned, both foreign and locally owned or government owned and the findings are presented in Table 4.2.

**Table 4.2: Ownership**

<b>Ownership</b>	<b>Frequency</b>	<b>Percent</b>
Privately owned (Local)	12	66.7
Both foreign and locally owned	5	27.8
Government owned	1	5.6
Total	18	100.0

Source: Research Data (2011)

The results from Table 4.2 above reveal that 18 milk processing companies in Kenya participated in the study where majority are privately owned. This represented 66.7% while 27.8% are both foreign and locally owned. Government ownership is represented by 5.6% of the total. From the findings, it implied that most companies will have to seek locally developed sources of sustainable competitive advantage.

#### **4.2.3 Size of the Company**

This section used two different parameters to measure the size of the company. First, the number of branches operated by each company and second, the number of employees in each company. Table 4.3a and 4.3b presents the size of the company in relation to the number of branches and number of employees respectively.

**Table 4.3a: Size of the company (No. of branches)**

<b>Size (Branches)</b>	<b>Frequency</b>	<b>Percent</b>
1 Branch	1	5.6
2 Branches	3	16.7
3 Branches	6	33.3
4 Branches	3	16.7
5 Branches	3	16.7
5 Branches and above	2	11.1
Total	18	100.0

Source: Research Data (2011)

**Table 4.3b: Size of the company (No. of employees)**

<b>Size ( Employees)</b>	<b>Frequency</b>	<b>Percent</b>
Below 149	10	55.6
Between 150 – 299	2	11.1
Between 300 – 449	2	11.1
450 and above	4	22.2
Total	18	100.0

Source: Research Data (2011)

The results in Table 4.3a shows that majority of the companies studied had three branches comprising of 33.3%. Table 4.3b reveals that majority of the companies studied had less than 149 employees comprising 55.6% then followed by those companies with more than 450 employees which was 22.2 %. The findings in terms of number of branches and number of employees indicate that majority of companies operate locally. This therefore implies that the ability of these companies to seek and develop sources of



sustainable competitive advantage and strategies adopted to achieve the same will be dependent of their size. However; this is a limiting aspect towards achieving a sustainable competitive advantage.

#### **4.2.4 Scope of Operation**

This section sought to establish the market covered by the respective milk processing companies. This would put pressure on the innovative ability and capability of the companies to develop products that meet the needs of different market segments. It will determine the different sources of sustainable competitive advantage sought by companies so as to remain competitive and relevant in the market. It will also determine the different strategies adopted by companies to counter competition in the business environment. The respondents were required to indicate whether they operated locally (within Kenya), regionally (within East Africa) or globally (Africa and beyond). Table 4.5 presents the scope of operation for the studied companies.

**Table 4.4: Scope of operation**

<b>Scope of operation</b>	<b>Frequency</b>	<b>Percent</b>
Locally ( within Kenya )	11	61.1
Regional ( Within East Africa )	5	27.8
Globally (Africa and beyond)	2	11.1
Total	18	100.0

Source: Research Data (2011)

Results from table 4.5 above reveal that most of the milk processing companies operate locally (within Kenya) comprising 61.1% followed by those operating within East Africa

and 11.1% operate globally. The findings concur with those of Table 4.2 where majority (66.7%) of the companies was found to be locally owned. It therefore indicated that the studied companies need to seek and develop sources of sustainable competitive advantage and adopt strategies that are local.

#### **4.2.5 Development of Strategies Different from competition**

This was to establish whether the targeted respondents normally come up with strategies that are different from those of competition during their respective strategic planning. The findings are presented in Table 4.5

**Table 4.5: Development of Strategies Different from Competition**

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	17	94.4
No	1	5.6
Total	18	100.0

Source: Research Data (2011)

The results in table 4.5 show that 94.4% of the milk processing companies came up with strategies that are different from those of competition during strategic planning while 5.6% does not come up with any strategies. This indicated that most companies strived to differentiate themselves from competition as a means of achieving and sustaining their competitive advantage.

### **4.3 Sources of Sustainable Competitive Advantage**

The first objective of the study was to determine the sources of SCA among dairy milk processing companies in Kenya. Barney (1991), offered that sustainable competitive advantage is achieved when a firm is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. Thus sustainable competitive advantage exists only after efforts to replicate that advantage have failed. It is for this reason that organizations are focusing on methods and strategies that are difficult to imitate. A true sustainable competitive advantage is achieved based on how companies understand and meet the customers' true needs probably better than the customers understand their own needs themselves. Therefore, understanding the sources of sustainable competitive advantage is the concern of managers in many companies making it an internal affair to each respective company.

This section used a likert scale of 1 – 5 as a measure of objectivity whereby the scale of 1= Not at all, 2= To a less extent, 3= To a moderate extent, 4= To a large extent and 5= To a very large extent. The respondents were required to tick the appropriate measure as guided to indicate the extent to which the given sources contributed towards achieving a sustainable competitive advantage. The findings are presented in Table 4.6.

**Table 4.6: Sources of Sustainable Competitive Advantage**

Sources	Response	Frequency	Percent	Mean	Std. Deviation
Superior skills/capabilities of personnel	To a moderate extent	1	5.6	4.56	.62
	To a large extent	6	33.3		
	To a very large extent	11	61.1		
	Total	18	100.0		
Continuous learning	To a large extent	4	22.2	4.78	.43
	To a very large extent	14	77.8		
	Total	18	100.0		
Possession of tacit/intangible knowledge	To a less extent	1	5.6	4.11	.90
	To a moderate extent	3	16.7		
	To a large extent	7	38.9		
	To a very large extent	7	38.9		
	Total	18	100.0		
Access to working capital	To a less extent	1	5.6	3.94	.94
	To a moderate extent	5	27.8		
	To a large extent	6	33.3		
	To a very large extent	6	33.3		
	Total	18	100.0		
Alliance with distributors and suppliers	To a less extent	3	16.7	3.44	.98
	To a moderate extent	7	38.9		
	To a large extent	5	27.8		
	To a very large extent	3	16.7		
	Total	18	100.0		
Excellent management teams and operations	To a moderate extent	3	16.7	4.44	.78
	To a large extent	4	22.2		
	To a very large extent	11	61.1		
	Total	18	100.0		
Strong brand name and reputation	To a less extent	2	11.1	3.67	1.03
	To a moderate extent	7	38.9		
	To a large extent	4	22.2		
	To a very large extent	5	27.8		
	Total	18	100.0		
High level of customer service quality	To a less extent	1	5.6	4.44	.78
	To a large extent	7	38.9		
	To a very large extent	10	55.6		
	Total	18	100.0		
Low cost or high volume production	To a less extent	1	5.6	3.61	.78
	To a moderate extent	7	38.9		
	To a large extent	8	44.4		
	To a very large extent	2	11.1		
	Total	18	100.0		
Highly motivated and loyal employees	To a large extent	5	27.8	4.72	.46
	To a very large extent	13	72.2		
	Total	18	100.0		
Superior products or customer support	To a moderate extent	4	22.2	4.50	.86
	To a large extent	1	5.6		
	To a very large extent	13	72.2		
	Total	18	100.0		

Strong research and development capabilities	To a less extent	4	22.2	3.56	1.04
	To a moderate extent	3	16.7		
	To a large extent	8	44.4		
	To a very large extent	3	16.7		
	Total	18	100.0		
Effective knowledge management systems	To a less extent	2	11.1	3.89	.96
	To a moderate extent	3	16.7		
	To a large extent	8	44.4		
	To a very large extent	5	27.8		
	Total	18	100.0		
Strong corporate culture	To a moderate extent	6	33.3	4.00	.84
	To a large extent	6	33.3		
	To a very large extent	6	33.3		
	Total	18	100.0		
Superior financial performance	Not at all	1	5.6	3.28	1.02
	To a less extent	3	16.7		
	To a moderate extent	5	27.8		
	To a large extent	8	44.4		
	To a very large extent	1	5.6		
	Total	18	100.0		
Effective leadership	To a large extent	3	16.7	4.83	.38
	To a very large extent	15	83.3		
	Total	18	100.0		
Business networks and coalitions	To a moderate extent	4	22.2	4.44	.86
	To a large extent	2	11.1		
	To a very large extent	12	66.7		
	Total	18	100.0		

Source: Research Data (2011)

The study adopted the use of mean scores in determining whether a source of sustainable competitive advantage is significant or not. A mean score of below 3.00 indicated that a particular source of SCA is not significant while a mean score of between 3.1 to 3.9 is a moderately significant source of SCA and the one with a mean score of 4 and above indicate that the source of SCA is very significant.

Findings from the study revealed that there are a number of sources of SCA among the milk processing companies in Kenya. There were 17 sources of SCA presented to the respondents. Out of the 17 sources presented, 10 of them were found to be very significant representing 58.82% of the possible sources of SCA. Top on the list of sources was effective leadership with a mean score of 4.83, followed by continuous learning with

a mean score of 4.78, highly motivated employees with a mean score of 4.72, superior skills/capabilities of personnel with a mean score of 4.56, excellent management teams and operations, high level of customer service quality, and business networks and coalitions all with a mean score of 4.4 and bottom of the list in this category was strong corporate culture with a mean score of 4.0.

The respondents identified 7 sources in the category of moderately significant representing 41.18% of the total. These sources included access to working capital with a mean score of 3.94 on top of the list, followed by effective knowledge management systems with a mean score of 3.89, strong brand name and reputation, low cost or high volume production, strong research and development capabilities and alliance with distributors and suppliers with mean scores of 3.67, 3.61, 3.52 and 3.44 respectively. On the bottom of the list in that category was superior financial performance with a mean score of 3.28 while in the category of not significant sources of SCA, there were no sources identified by the respondents.

The research findings revealed that effective leadership was the most sought and developed source of SCA among the milk processing companies in Kenya. This was followed by continuous learning, highly motivated employees, superior skills/capabilities of personnel and high level of customer service quality respectively. It therefore indicated that for a company to achieve and sustain a competitive advantage in the business environment, the above stated sources of SCA had to be in place.

Findings from the study concur with the postulates in the literature with respect to achieving and sustaining a competitive advantage in the turbulent business environment.

The findings agree with the literature that sustainable competitive advantage can be achieved through effective leadership. It is both motivation for constant innovation up and down all company levels and as a source of unity and power of intellect, will, persistence and vision to create synergies that propel successful companies in their quest for, and achievement of competitive advantage.

The findings also concur that continuous learning is another major source of SCA. Goh (2003) noted that to remain competitive; many organizations are adopting a strategy of continuous learning as an important capability that can serve as a source of sustainable competitive advantage. As a result, many highly competitive organizations now invest in developing the capability for continuous organizational learning. Cumulative organizational learning is an activity driver that can sustain a competitive advantage (Foss & Sheehan, 2007).

The study findings were further found to reflect Woodruff's (1997) argument that the level and quality of service offered to customers by a firm can be a key focus to value generation and subsequent SCA. Through a customer orientation, firms can gain knowledge and customer insights in order to generate superior innovations (Varadarajan and Jayachandran 1999). Slater (1997) aids Woodruff's call by suggesting a new theory of the firm that is customer-value based. Under this theory, the reason that the firm exists is to satisfy the customer; the focus on providing customers with value forces firms to learn about their customers, rather than simply from their customers. With respect to performance differences, this theory suggests that those firms that provide superior customer value will be rewarded with superior performance as well as a sustainable competitive advantage.

The above sources of SCA were indicated to be most significant by the respondents. However, it should be noted that the respondents had different degrees of variations among themselves in respect to the extent in which the sources were significant. This was indicated by the standard deviation of each source of SCA. Among the 10 sources of SCA considered most significant, the standard deviations ranged from a low of 0.38 for effective leadership to a high of 0.84 for strong corporate culture among the milk processing companies in Kenya.

The respondents were further requested to list any other sources of sustainable competitive advantage to which their responses included lobbying with the customers, product quality ,promotional campaign, latest technology, backward and forward integration, marketing communication, quality management ,effective distribution ,good public relations ,outsourcing of non-core competencies , continuous learning on how things can be done better ,establishment of own market niche for effective competition. Other sources cited are innovation and prioritization of quality and consistency ,promotion and distribution of products, strict product quality control procedures, company goodwill, the use of modern technology ,effective promotional and distribution and strong market intelligence.

#### **4.4 Strategies for Sustainable Competitive Advantage**

The major challenge faced by many organizations in the business environment is how to achieve and sustain a CA. As such, there is need for organizations to come up with strategies that are sustainable to ensure their own survival in the midst of emerging fierce and complex competition. However, the ability of a strategy to add value to a firm must



be linked with rare and costly-to-imitate organizational strengths and weaknesses in order to generate a SCA. The turbulent nature of the business environment in which milk processing companies operate in Kenya, forces managers to continuously seek strategies that will ensure that SCA is achieved and sustained.

This section aimed at establishing the strategies instituted by the various milk processing companies in Kenya in response to the competition. The section equally used a likert scale of 1 – 5 as a measure of objectivity whereby the scale of 1= Not at all, 2= To a less extent, 3= To a moderate extent, 4= To a large extent and 5= T a very large extent. Table 4.7 shows the strategies put in place in response to competition.

**Table 4.7: Strategies for sustainable competitive advantage.**

Strategies	Response	Frequency	Percent	Mean	Std. Deviation
Cost leadership strategy	To a moderate extent	3	16.7	4.17	.71
	To a large extent	9	50.0		
	To a very large extent	6	33.3		
	Total	18	100.0		
Product differentiation strategy	To a moderate extent	1	5.6	4.50	.62
	To a large extent	7	38.9		
	To a very large extent	10	55.6		
	Total	18	100.0		
Strategic alliances	To a less extent	4	22.2	3.67	1.19
	To a moderate extent	4	22.2		
	To a large extent	4	22.2		
	To a very large extent	6	33.3		
	Total	18	100.0		
Market development strategy	To a moderate extent	3	16.7	4.33	.77
	To a large extent	6	33.3		
	To a very large extent	9	50.0		
	Total	18	100.0		
Product development strategy	To a moderate extent	1	5.6	4.61	.61
	To a large extent	5	27.8		
	To a very large extent	12	66.7		
	Total	18	100.0		
Related diversification strategy	To a less extent	1	5.6	3.94	.94
	To a moderate extent	5	27.8		
	To a large extent	6	33.3		
	To a very large extent	6	33.3		
	Total	18	100.0		

Unrelated diversification strategy	Not at all	1	5.6	2.94	1.16
	To a less extent	6	33.3		
	To a moderate extent	7	38.9		
	To a large extent	1	5.6		
	To a very large extent	3	16.7		
	Total	18	100.0		
Cooperation /tacit collusion strategy	To a less extent	2	11.1	3.78	1.06
	To a moderate extent	6	33.3		
	To a large extent	4	22.2		
	To a very large extent	6	33.3		
	Total	18	100.0		

Source: Research Data (2011)

Mean scores were used to determine the strategies adopted by the milk processing companies in Kenya. Strategies with mean scores of 3.00 and below indicated that the strategies pursued were not significant. Those with mean scores ranging between 3.01 to 3.99 indicated that the strategies pursued were moderately significant while those with mean scores of 4.00 and above indicated that the strategies pursued were very significant.

Findings of the study in Table 4.7 revealed that there are a number of strategies for SCA adopted by the milk processing companies in Kenya. Respondents were presented with 8 possible strategies to identify which among them was most applicable to their respective companies. Out of the 8 possible strategies presented to the respondents, 4 of them were found to be very significant representing 50.00% of the total. Top on the list of strategies was product development strategy with a mean score of 4.61, followed by product differentiation strategy, market development strategy and cost leadership strategy with mean scores of 4.17, 4.50 and 4.33 respectively. There were 3 strategies that were found to be moderately significant representing 37.5% of the total. Top on the list in that category was related diversification with a mean score of 3.94, followed by cooperation/tacit collusion strategy and strategic alliance with mean scores of 3.78 and

3.67 respectively. The unrelated diversification strategy representing 12.5% was identified not to be significant.

From the findings of the study, it indicated that 50% of the strategies for sustainable competitive advantage pursued by milk processing companies in Kenya are very significant. The results revealed that most of the said companies pursued strategies that sought to strengthen their internal capabilities and competencies so as to have a firm foundation upon which other strategies could be built. These findings concur with earlier results in Table 4.6 on the sources of SCA.

Equally as in the earlier findings in Table 4.6, there were variations with respect to the extent with which these strategies were significant to the respective companies. The variation with respect to product development strategy had a standard deviation of 0.61 while product differentiation, market development and cost leadership strategies had standard deviations of 0.62, 0.77 and 0.71 respectively. Therefore, not all the said companies adopted strategies to the same degree. The slight difference could have been as a result of lacking homogenous characteristics among the milk processing companies.

The findings of the study further indicate that 37.5% of the strategies pursued were moderately significant. However, the extent of their significance differed as revealed by the respective standard deviations. The variation with respect to related diversification strategy had a standard deviation of 0.94 while cooperation tacit collusion strategy and strategic alliance had standard deviations of 1.06 and 1.19 respectively. Unrelated diversification strategy was the only one that had no significance representing 12.5% with a 1.16 standard deviation. The findings indicated that milk processing companies

had not sought to strengthen their sustainable competitive advantage through external influence but rather internal influence.

The results further indicated that milk processing companies in Kenya pursued strategies that were geared towards developing their internal capabilities and competencies. The product development strategy by the said companies agree with Pearce and Robinson (1997) who postulates that the idea is to attract satisfied customers to new products as a result of their positive experience with the company's offering. This strategy is often adopted to prolong the life cycle of current products or to take advantage of a favorable reputation or brand name. It involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels.

The findings further indicated that product differentiation strategy adopted by the milk processing companies in Kenya support Porter's (1980) idea that this is a competitive business strategy whereby companies attempt to gain a competitive advantage by increasing the perceived value of their offerings relative to the perceived value of other companies' offerings. Firms that implement this strategy successfully can reduce a variety of environmental threats and exploit a variety of environmental opportunities (Barney, 1997). The important thing for any company adopting this strategy is to ensure that customers really do have unique needs and wants and that existing competitor product do not meet this expectation.

The adoption of market development strategy by milk processing companies in Kenya as revealed from the findings, further concurs with Pearce and Robinson's (1997) argument

that that the strategy allows firms to practice a form of concentrated growth by identifying new uses for existing products and new demographically, psychographically, or geographically defined markets. Changes in media selection, promotional appeals, and distribution are frequently used to initiate this approach. Firms that practice market development open branch offices in new geographical areas thus switching from advertising in trade publications to advertising in newspapers or vice versa.

The findings further revealed that milk processing companies in Kenya had adopted a cost leadership strategy for sustainable competitive advantage. The findings agreed with Porter (1985), in his postulate that a competitive advantage exists when a firm is able to deliver the same benefits as competitor but at a lower cost (cost advantage). Barney (1997) concurs that the ability of a valuable cost-leadership competitive strategy to generate a sustained competitive advantage depends on that strategy being rare and costly to imitate, either through direct duplication or substitution. Generally, the study revealed that milk processing companies in Kenya adopted strategies for sustainable competitive advantage in the turbulent business environment. However, the said companies are largely focused on the internal capabilities and competencies as opposed to external attributes.

Respondents were further requested to state the limitations of Sustainable Competitive Advantage in their respective companies. The aim was to find out what could have been hindering the sustainability of the identified sources. The response included short lifespan of SCA as it is difficult to patent the developed strategies so as to avoid duplication by competitors, established strategies cannot be protected from duplication by competitors, poaching of staff by competitors, promotion and distribution strategies was found to be a

challenge as most organizations were also adopting it, monopolizing a strategy in the face of competition was difficult, rapidly changing microenvironment such as lifestyle, inflation and complacency.

Other respondents cited suppliers' bargaining power, it was not easy to predict competitors' behavior to warrant the formation of a long term strategy ,strategies were not cast on stone as they kept changing depending on circumstances, it did not exist in the real life situation, there were no regulations to safeguard the strategy innovators and developers, the strategies could not operate independently ,intensive competition limited sustainability of the identified strategies and some competitive advantages were costly to carry out especially when staff members are trained and then they move to competition.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents a summary of the findings, conclusions and recommendations. The study sought to achieve three objectives: to determine the sources of sustainable competitive advantage; to establish the strategies for achieving sustainable competitive advantage and to determine the challenges of gaining and sustaining a Sustainable Competitive Advantage among milk processing companies in Kenya. Based on these objectives and variables drawn from the literature review, a questionnaire was developed and used to gather data. Collected data was analyzed using frequencies, percentages, mean scores and standard deviations. Research objectives were taken into considerations while discussing the results. The chapter further concludes by suggesting recommendations for adoption to ensure Sustainable Competitive Advantage, limitations of the study and also suggestions on areas for further research.

### **5.2 Summary**

The first objective of the study was to establish the sources of Sustainable Competitive Advantage, the second was to establish the strategies for achieving Sustainable Competitive Advantage and finally find out the challenges of gaining and sustaining a Sustainable Competitive Advantage among the milk processing companies in Kenya. To achieve the mentioned objectives, a cross-sectional survey was carried out targeting a selected team of senior managers such as Corporate Planning/Strategy Managers,

Commercial Managers and National Sales and Marketing Managers. These were the managers involved in developing and making decisions on the sources of Sustainable Competitive Advantage strategies within the milk processing companies. The population of interest was all the milk processing companies in Kenya as at the time of the study. Due to the nature of the study, both quantitative and qualitative approach was adapted where semi-structured questionnaires were developed and administered to the respective respondents. There were a total of 18 targeted respondents out of which 21 completed and returned the questionnaire.

The sustainable competitive advantage construct in the new millennium focuses at the higher level of management organization, and the source of sustainable competitive advantage does not merely focus on intangible resources such as brand name and reputation, but on wider dimensions of business operations. The sources of sustainable competitive advantage discussed above are mainly intangible and they could also be recognized as a firm's strategic assets. Therefore, a body of literature has emerged to address the sources of sustainable competitive advantage and the different strategies for SCA. It needs to be deeply embedded in the organization's resources, skills, culture, and investment over time. The study sought to contribute into the pool of literature by focusing on the sources of sustainable competitive advantage among the milk processing companies in Kenya.

Different aspects were looked into during the study; first it was the companies' demographic information which formed the basis for seeking information to achieve the study objectives and answer the study questions. The elements that formed this aspect were the year of incorporation, ownership structure, size of the company, scope of



operation and whether the companies crafted strategies that were different from those of competition during strategic planning.

The study revealed that out of the 18 milk processing companies that participated in the study, 77.8% had been in operation for five years and above, 5.6% had been in operation between 4.1 to 5 years, 5.6% between 3.1 to 4.0 years and 11.1% between 2.1 to 3 years. On the element of ownership and structure, it was established that 66.7% were locally owned, 27.8% were both foreign and locally owned while only 5.6% were government owned. On the element of size of the company in relation to number of branches, the study revealed that 5.6% had one branch, 16.7% had two branches, 33.3% had three branches, 16.7% had four branches, another 16.7% had five branches and 11.1% had more than five branches. On the same element in relation to number of employees, the study established that 55.6% had less than 149 employees, 11.1% had between 150 to 299 employees, another 11.1% had between 300 to 499 employees and 22.2% had more than 450 employees.

On the element of scope of operation, the study revealed that 61.1% operated locally (within Kenya), 27.8% operated regionally (within East Africa) and 11.1% operated globally (Africa and beyond). It was further established that 94.4% of the companies crafted strategies that were different from competition during strategic planning while 5.6% did not craft any strategies at all.

The study in relation to objective one, further established that of the 17 possible sources of sustainable competitive advantage, 58.82% were very significant to the organization while 41.12% were moderately significant. This indicated that to a certain extent, all the

sources were significant as they were internally generated. The sources that were very significant included effective leadership with a mean score of 4.83, followed by continuous learning with a mean score of 4.78, highly motivated employees with a mean score of 4.72, superior skills/capabilities of personnel with a mean score of 4.56, high level of customer service quality with a mean score of 4.44 and bottom of the list in this category was strong corporate culture with a mean score of 4.00. Those that were moderately significant included access to working capital on top of the list with a mean score of 3.94 followed by effective knowledge management systems with a means score of 3.89, strong brand name and reputation with a mean score of 3.67 and bottom in that category was superior financial performance with a mean score of 3.28. In the category of not significant sources of SCA, there were no sources revealed. However, it was noted that there were differences in the standard deviations indicating that the various sources of SCA had varied degrees of significance.

Findings in relation to objective two established that there were a number of strategies for SCA adopted by the milk processing companies in Kenya. Out of the 8 possible strategies presented to the respondents, 4 of them were found to be very significant representing 50.00% of the total. Top on the list of strategies was product development strategy with a mean score of 4.61, followed by product differentiation strategy with a mean score of 4.50, market development strategy with a mean score of 4.33 and cost leadership strategy with a mean score of 4.17. The strategies that were moderately significant found to be 3 representing 37.5% of the total. Top on the list in that category was related diversification with a means score of 3.94, followed by cooperation/tacit collusion strategy and strategic alliance at the bottom of the list with mean scores of 3.78 and 3.67 respectively. The

unrelated diversification strategy representing 12.5% was identified not to be significant. Equally like the sources of SCA, the strategies had differences in their standard deviations indicating the variability in the degrees of significance.

Findings of the study further revealed limitations of Sustainable Competitive Advantage in respective companies as indicated by the respondents. The limitations included ; short lifespan of SCA as it is difficult to patent the developed strategies so as to avoid duplication by competitors, established strategies cannot be protected from duplication by competitors, poaching of staff by competitors, promotion and distribution strategies was found to be a challenge as most organizations were also adopting it, monopolizing a strategy in the face of competition was difficult, rapidly changing microenvironment such as lifestyle ,inflation and complacency.

Other respondents cited suppliers' bargaining power, it was not easy to predict competitors' behavior to warrant the formation of a long term strategy ,strategies were not cast on stone as they kept changing depending on circumstances, it did not exist in the real life situation, there were no regulations to safeguard the strategy innovators and developers, the strategies could not operate independently ,intensive competition limited sustainability of the identified strategies and some competitive advantages were costly to carry out especially when staff members are trained and then they move to competition.

### **5.3 Conclusion**

The research findings revealed a number of issues regarding the sources of SCA among the milk processing companies in Kenya. The general results indicated that most of the milk processing companies in Kenya have been in operation for more than five years

which implied that they have withered the competitive storm in the business environment. Most milk processing companies were also locally owned, fairly small in size, operated locally and crafted strategies that were different from competition during strategic planning. This implied that the sources of SCA and crafted strategies could be customized to suite the local business environment and the size of the respective companies.

The findings further indicated that both the sources of sustainable competitive advantage were internally generated and geared towards capabilities and competences of each milk processing company. The study therefore concludes that the milk processing companies in Kenya employ a combination of sources of sustainable competitive advantage to stay competitive in the turbulent business environment. There is no single source of sustainable competitive advantage that could be used universally in the dairy industry to achieve the desired objectives among all milk processing companies in Kenya. It requires a combination of various sources that suite the uniqueness of each organization to achieve and sustain competitiveness in the business environment. The sources include effective leadership, continuous learning, highly motivated and loyal employees, superior products or customer service, business networks and coalitions, superior skills/capabilities and high level of customer service quality.

Further the study concludes that the milk processing companies in Kenya have employed various strategies for sustainable competitive advantage. Equally as in the sources of SCA, these strategies are internally generated and they are geared towards developing internal capabilities and competences. The strategies include product development, product differentiation, market development, cost leadership and related diversification.

Others are strategic alliance, unrelated diversification and cooperation / tacit collusion strategies. Congruence is therefore revealed among the aspects of the study ranging from demographic information, sources of sustainable competitive advantage and strategies for sustainable competitive advantage.

#### **5.4 Recommendations**

The researcher recommends that milk processing companies in Kenya need to employ a variety of sources of sustainable competitive advantage which complement each other to achieve sustainability in the competitive business environment. The sources include effective leadership, continuous learning, highly motivated and loyal employees and superior skills/capabilities of personnel. There is also need for the companies to come up with unique tangible sources of sustainable competitive advantage like milk processors as opposed to the current intangible sources being used. The milk processing companies in Kenya need to establish a clear channel with which information can be availed to researchers who would wish to carry out studies in the respective companies.

#### **5.5 Limitations**

The researcher could not elicit information from some of the respondents who were skeptical in filling the questionnaire. The respondents argued that the required information was a breach of trust with their respective organization as some of it was regarded as classified information. The researcher assured the respondents that the information provided was to be purely for academic purposes and was to be highly treated in confidence. The researcher further explained the use of research instruments to code the findings showing only the aggregated scores that guaranteed confidentiality.

The researcher had limited time to conduct the survey as some respondents seemed busy to fill the questionnaire. This called for further persuasion to have the questionnaires filled and returned in time to enable the report to be compiled. However, not all respondents complied as some questionnaires were either never filled or returned as at the time of compiling this report.

## **5.6 Suggestions for Further Research**

The study focused on the sources of sustainable competitive advantage among milk processing companies in Kenya. There is need to carry out further research in other companies in Kenya like the animal feed manufacturing companies, tea processing and sugar milling companies.

It is also suggested that studies on other aspects of SCA be carried out among the milk processing companies in Kenya. The area of interest might be challenges of implementing strategies of SCA among the milk processing companies in Kenya. Another area of interest might be challenges of sustaining competitive advantages among the milk processing companies in Kenya.

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## APPENDIX I: QUESTIONNAIRE

### Part I: Organizational Bio Data

1. Name of your organization (Optional).....
2. Year of incorporation.....
3. Ownership ( Kindly tick appropriately )
  - a) Privately owned ( Local) ( )
  - b) Foreign owned ( )
  - c) Both foreign and locally owned ( )
  - d) Government owned ( )
4. Size of the company ( No. of branches) .....
5. Size of the company (No. of employees – Kindly tick appropriately )
  - a) Below 149 ( )
  - b) Between 150 – 299 ( )
  - c) Between 300 – 449 ( )
  - d) Above 450 ( )
6. Scope of operation (Kindly tick appropriately) ( )
  - a) Locally ( within Kenya ) ( )
  - b) Regional ( Within East Africa ) ( )
  - c) Globally (Africa and beyond) ( )
7. Does your company come up with strategies that are different from those of competition during strategic planning?
  - a) Yes ( )
  - b) No ( )

Briefly explain your answer above stating the focus/Direction of the



strategies.....  
 .....  
 .....  
 .....  
 .....  
 .....

**Part II: Sources of Sustainable Competitive Advantage**

8. Listed below are sources of sustainable competitive advantage in the dairy milk processing industry in Kenya. To what extent are they sources of sustainable competitive advantage to your company? Kindly use the key guide below and tick appropriately.

**1** – Not at all                                      **2** – To a less extent                                      **3** – To a moderate extent

**4** – To a large extent                                      **5** – To a very large extent

i.	Superior skills/capabilities of personnel	(1)	(2)	(3)	(4)	(5)
ii.	Continuous learning	(1)	(2)	(3)	(4)	(5)
iii.	Possession of tacit/intangible knowledge	(1)	(2)	(3)	(4)	(5)
iv.	Access to working capital	(1)	(2)	(3)	(4)	(5)
v.	Alliance with distributors and suppliers	(1)	(2)	(3)	(4)	(5)
vi.	Excellent management teams and operations	(1)	(2)	(3)	(4)	(5)
vii.	Strong brand name and reputation	(1)	(2)	(3)	(4)	(5)
viii.	High level of customer service quality	(1)	(2)	(3)	(4)	(5)
ix.	Low cost or high volume production	(1)	(2)	(3)	(4)	(5)
x.	Highly motivated and loyal employees	(1)	(2)	(3)	(4)	(5)
xi.	Superior products or customer support	(1)	(2)	(3)	(4)	(5)
xii.	Strong research and development capabilities	(1)	(2)	(3)	(4)	(5)
xiii.	Effective knowledge management systems	(1)	(2)	(3)	(4)	(5)
xiv.	Strong corporate culture	(1)	(2)	(3)	(4)	(5)
xv.	Superior financial performance	(1)	(2)	(3)	(4)	(5)

- |       |                                  |     |     |     |     |     |
|-------|----------------------------------|-----|-----|-----|-----|-----|
| xvi.  | Effective leadership             | (1) | (2) | (3) | (4) | (5) |
| xvii. | Business networks and coalitions | (1) | (2) | (3) | (4) | (5) |

List and score any other sources not mentioned above

a) .....

### Part III: Strategies for Sustainable Competitive Advantage

9. Below are some of the strategies companies are likely to use for achieving and sustaining competitive advantage. To what extent has your company adopted the strategies? Kindly use the key guide below and tick appropriately.

- 1- Not at all                      2 – To a less extent                      3 – To a moderate extent
- 4 – To a large extent                      5 – To a very large extent

- |    |                                       |     |     |     |     |     |
|----|---------------------------------------|-----|-----|-----|-----|-----|
| a) | Cost leadership strategy              | (1) | (2) | (3) | (4) | (5) |
| b) | Product differentiation strategy      | (1) | (2) | (3) | (4) | (5) |
| c) | Strategic alliances                   | (1) | (2) | (3) | (4) | (5) |
| d) | Market development strategy           | (1) | (2) | (3) | (4) | (5) |
| e) | Product development strategy          | (1) | (2) | (3) | (4) | (5) |
| f) | Related diversification strategy      | (1) | (2) | (3) | (4) | (5) |
| g) | Unrelated diversification strategy    | (1) | (2) | (3) | (4) | (5) |
| h) | Cooperation /tacit collusion strategy | (1) | (2) | (3) | (4) | (5) |

List and score any other strategy not mentioned above

- a) .....
- b) .....

10. In your opinion, what are the limitations of sustainable competitive advantage?

a) .....

b) .....

c) .....

d) .....

e) .....

**THANKS FOR YOUR COOPERATION**

**APPENDIX II: INTRODUCTORY LETTER**

George Monari Bogecho,  
University of Nairobi,  
School of Business,  
Dep't of Business Administration  
P.O. Box 30197 – 00100  
Nairobi.  
30/5/2011.

Dear Respondent,

**RE: MBA RESEARCH PROJECT DATA**

I am a Master of Business Administration (MBA) student at the University of Nairobi specializing in Strategic Management .Am kindly requesting to be allowed to seek information in relation to the sources of sustainable competitive advantage among milk processing companies in Kenya. This study is being carried out in partial fulfillment of the course.

The information provided will **STRICTLY** be used for academic purposes and will be highly treated in confidence. No publication, if any shall be made without prior approval from the respondent(s). Under no instance will your name be mentioned in the report. Further **CONFIDENTIALITY** is guaranteed through coding of the findings.

Attached please find an interview guide that will be used to collect data that will be used in the research. Your assistance will be highly appreciated.

Yours truly,

**George Monari Bogecho**

MBA Student

**Dr. Vincent Machuki**

Supervisor

**APPENDIX III: LIST OF MILK PROCESSING COMPANIES IN KENYA**

<b>NAME</b>	<b>PROVINCE</b>	<b>PHONE</b>
1. Adarsh Developers Ltd.	Nairobi	02215268,0203567023,072 2787103,0733212637
2. Afrodane Industries	Central	0724963788,0721528512
3. Bio Food Products	Nairobi	3503596/7,0206750397
4. Brookside ( Industrial Area)	Nairobi	532411/2/3
5. Buzeki Dairy Ltd	Rift-Valley	+254412318611
6. Doinyo Lessos Creameries	Eldoret	032163308/2063896
7. Egerton University	Rift-Valley	051-2217639
8. Eldoville farm	Nairobi	0720696837,0203882642
9. Farmers Milk Processors	Rift -valley	03232156/20589
10. Githunguri D.F.C.	Central	0202130885-7
11. Hussein Dairy	Coast	+2542721687/03786382
12. Kabianga Dairy	Rift-Valley	0720699746/0734777777
13. Kinyangi Food Processing	Nairobi	0722397883

14. Lari Dairy Alliance	Central	0710892197/072277765
15. Limuru Milk Processors	Central	0202010610
16. Meru Central Dairy	Central	0164-30081/2
17. New KCC	Nairobi	+254-020-55952
18. New Sameer A&L	Nairobi	+254-020-555863/6
19. PamideDairy	Central	0202319873/4,0720529309
20. Raka Milk Processors	Nyeri	0612032023,0612032025
21. Silent Valley Creameries	Rift-Valley	06231254/0735435660
22. Stanley & Sons	Nairobi	0722833277
23. Sun Powder Products	Central	+25406673096/072899965 4/0733608503

SOURCE: KDB REPORT 2009/2010.