STRATEGIC RESPONSES BY COMPANIES IN THE SUGAR INDUSTRY IN KENYA TO THE IMPLEMENTATION OF THE COMESA FREE TRADE AGREEMENT

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OCTOBER 2012
DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for academic purposes.

Signed …………………………… Date…………………………
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D61/P/8202/02

This project has been presented for examination with my approval as the appointed supervisor.

Signed …………………………… Date…………………………
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DEDICATION

This work is dedicated to my late father, Sylivano Wachiye, who passed away last month aged 93 years old, for having seen the need for my education and therefore having encouraged me to go to school in 1971. I also dedicate this work to my late cousin, Professor Edward George Kasili who strongly advised me to do MBA in 1989. I lived to regret having ignored his advice but I have finally realized that he was right.
ACKNOWLEDGEMENTS

The information herein, which follows the successful completion of the Master of Business Administration programme, was successful with inputs from various individuals.

First, and foremost, I would like to thank God for giving me good life throughout the duration of this programme.

Secondly, I am grateful to my family members, my wife and children for their patience for the last 8 years that I have undertaken this programme.

Last, but not least, I must record and appreciate my supervisor, Dr Jackson Maalu, for the direction, cooperation and support during the research process up to the time of completion.
ABSTRACT

The purpose of this study was to establish the strategic responses by the sugar companies in Kenya to deal with the environmental challenge posed by the imminent full implementation of the COMESA FTA protocol and which will mean that there will be unlimited importation of cheaper sugar from COMESA member countries.

The research problem was solved through the use of a cross-sectional descriptive survey. A descriptive survey normally attempts to describe or define a subject by creating a profile of a group of problems, people or events, through the collection of data and tabulation of the frequencies or their interaction. The target population of this study was all the 11 sugar companies licensed by the Kenya Sugar Board as at March 2012.

The findings indicate that the major challenges were the high cost of farm inputs, the uneconomical size of farmers’ plots, the weak management of farmers’ institutions and lack of diversification. The findings also indicate that only 43% of the respondents had strategic responses to the environmental threat. The majority (57%) implied that they had not developed any strategic responses. The findings further indicate that the majority (67%) of those who have put in place strategic responses believe that these responses were adequate. The study established that increasing marketing activities was ranked highest as a strategic response same as leadership strategy. The next highly ranked strategic response was increased use of ICT and lastly, culture change.

The following recommendations can be made from the study. First of all, sugar companies should come up with appropriate strategic responses to the external threat posed by the upcoming full implementation of the COMESA FTA. Secondly, from the study, it appears that the strategic responses ranked highest are not those that immediately address the reasons why locally produced sugar is uncompetitive locally and regionally. Therefore it is highly recommended that the respective companies come up with appropriate strategic responses to address the issue of high costs of production that leads to the uncompetitiveness of the locally produced sugar.
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## ABBREVIATIONS

<table>
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<tr>
<td>ACP-EU</td>
<td>African Caribbean and Pacific – European Union</td>
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<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>FAO</td>
<td>Food and Agricultural Organization</td>
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<td>FTA</td>
<td>Free Trade Area</td>
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<td>ICT</td>
<td>Information and Communication Technology</td>
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<td>IPO</td>
<td>Initial Public Offer</td>
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<td>KESREF</td>
<td>Kenya Sugar Research Foundation</td>
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<td>KSA</td>
<td>Kenya Sugar Authority</td>
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<td>KSB</td>
<td>Kenya Sugar Board</td>
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<td>SDF</td>
<td>Sugar Development Fund</td>
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<tr>
<td>TCD</td>
<td>Tons Crushed per Day</td>
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<td>TQM</td>
<td>Total Quality Management</td>
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The environment within which companies operate is constantly changing and firms have to respond to these changes. Strategic planning and management has developed as a response to increasing challenges caused by high levels of environmental turbulence. Strategy helps firms to cope with change by designing appropriate strategic responses (Pearce and Robison, 2003). Successful firms continually scan their environment in order to identify future economic, competitive, technological and political discontinuities, which could affect their operations (Ansoff and McDonnell, 1990). In every industry, successful firms continuously reassess their competitive factors, which will bring future success. Whenever historical strategies do not match the future success factors, the firm develops new strategies or leaves the industry. Ansoff and McDonnell (1990) observed that strategy diagnosis helps determine the firm’s strategic responses, which, in the long run will ensure success.

Organizations consume resources, transform them through the various processes and then release the output to the environment (Porter, 1985). Organizations are environment dependent (Ansoff and McDonnell, 1990). All organizations have to justify their continued existence in society by their activities (Aosa 1998). The environment is important for the success and survival of the organizations. The organization’s external environment consists of all the conditions and forces that affect its strategy options and defines its competitive situation (Pearce and Robison, 2003). In the recent past, the global environment has been increasingly turbulent.

The success of any organization is determined by its responsiveness to the environment. To be able to retain competitive advantage, organizations need to examine their environment both external and internal and respond accordingly (Porter, 1985). Environmental conditions affect and influence strategies developed by an organization for survival and success. Environmental factors affect strategic responses to such factors, especially those external to the organization. Therefore, firms whose behaviors are
unplanned and unguided do not survive in the long run except in the monopolistic or subsidizing environments (Ansoff, 1988)

1.1.1 Strategic Responses
According to Pearce and Robison (2003) strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm’s objectives. It is thus a reaction to what is happening in the environment of the organization. Porter (1980) points out that knowledge of the underlying sources of competitive pressure provides groundwork for strategic agenda in action. When firms are faced with unfamiliar changes, they should revise their strategies to match the turbulence level. Each level of turbulence has different characteristics and requires different strategies to match. The strategy in turn has to be matched by appropriate organizational capability for survival, growth and development (Ansoff and McDonnell, 1990). Johnson, Scholes and Whittington (2005) points out that an organization exists in the context of a complex political, economic, social, technological and legal world. This external environment continues to change, and the effects of this change are specific to each organization.

Faced with the changing environment, organizations have to adapt their activities and internal configurations to reflect the new external realities. Failure to do this may jeopardize the future of those organizations (Aosa, 1998). Marquardt (1996) asserts that a learning organization is one that engages in collective learning, empowering its people to learn as they work, and is continually transforming itself to better collect and use knowledge for organization success.

Strategic responses require organizations to change their strategies to match the environment and to redesign their internal capabilities to match the selected strategies (Grant, 2000). If an organization strategy is not matched to its environment, then there exists a strategy gap. The degree to which responses are viable will vary significantly depending on the region or country involved. Therefore, the implications of specific responses will depend on the social, environmental and economic conditions.
1.1.2 COMESA Free Trade Agreement

The Common Market for Eastern and Southern Africa (COMESA) is a preferential trade area comprising of African countries stretching from Zimbabwe to Egypt. Kenya is a signatory to the COMESA Free Trade Agreement (FTA) as well as African Caribbean and Pacific-European Union (ACP-EU). Consequently, it is bound by the provisions of the FTA protocol that allow duty and quota-free access to sugar, among other commodities, from COMESA FTA countries into the Kenya market as well as the privilege of exporting sugar, among other agricultural commodities, to COMESA member states and to the European Union.

Kenya acceded to the COMESA FTA in October 2000. Pursuant to this, there was a marked surge of sugar imports from the COMESA sugar producing members into the country which impacted negatively on the performance of the domestic sugar market. Kenya consequently invoked and was granted a COMESA safeguard window in 2002, which was renewed in 2003 and extended to 2008. Under the terms of these safeguards, importers were allowed to bring in 200,000 tons of sugar per year. This quota was broken down into 90,000 tons of white table sugar and 110,000 tons of industrial sugar. This quota was still not enough to cover the deficit arising from the local production and consumption. Under the terms of the safeguards, any COMESA country was allowed to export sugar to Kenya beyond the above quota provided they pay tariffs like anybody else in the world.

The safeguards were granted to Kenya’s sugar sector based on a plan submitted by the Kenya government to COMESA showing that, during this period it would undertake restructuring to make the industry competitive. There was also the issue of smuggling of sugar, with some originating from as far as Brazil. The government of Kenya is one of the COMESA members that have diligently implemented the Free Trade Agreement since it is the major beneficiary. The challenge for Kenyan sugar industry was therefore to produce sufficient sugar for local consumption and even surplus for export in order to benefit from this agreement. What the KSB has been aiming at is to reduce the overall
cost of production in all industry institutions in order to render sugar affordable to Kenyans and to be regionally competitive.

The Kenya Sugar Board (KSB) has increasingly shown some independence in streamlining import surveillance services by putting in place mechanisms that enable it to closely monitor and regulate sugar imports in accordance with regulatory provisions in the COMESA agreements. Secondly, the government has shown real intentions of kick starting the growth of the sugar industry. For example, it imposed a tax of 120% on all domestic sugar imports beyond the allowed quota from COMESA FTA countries. It has also suspended interests and penalties on previous loans owed by farmers and millers to the SDF. This was to enable them build their financial bases. Thirdly, records at the KSB indicate that the KSB, in collaboration with all stakeholders embarked on developing a Sugar Industry Marshall Plan aimed at revitalizing the sugar industry in Kenya in a bid to render it not only profitable but also globally competitive.

However, by the year 2008 and Kenya was again at the negotiating table with COMESA, arguing that the local sugar industry had not surmounted the above challenges and, therefore, it still needed further safeguards. This time Kenya was granted a conditional extension to 2011 on the basis of clearly stipulated progressive annual import quota with corresponding reduction in import tariff such that by March 2012 there will be unlimited imports at zero tariffs. In mid 2011 Kenya realized the sugar industry was not ready to meet the earlier agreed conditions by March 2012. Therefore, it negotiated again and Kenya was allowed the final two years extension to March 2014.

1.1.3 The Sugar Industry in Kenya

The global sugar industry is one of the world’s oldest agriculturally based industries, which is estimated to produce around 167 million tons of sugar in the 2010/11 international sugar season. Whilst many forces continually impact upon annual global production, a major sustainability feature of this industry is its historic and ongoing sugar consumption growth, which on average, increases by around 1.8% per annum. Sugar is
produced by more than 100 countries in the world. Three quarters of the world’s sugar is made from sugar cane grown in tropical zones located in the southern hemisphere. The leading sugar cane producers are Brazil, India, China, Thailand, Pakistan and Mexico. The remainder of the sugar is processed from sugar beet grown in temperate zones of the northern hemisphere where the leading producers are France, Germany, USA, Russia, Ukraine and Turkey. Generally, the costs of producing sugar from sugar cane are lower than those in respect of processing sugar beets.

Records at the Kenya Sugar Board indicate that sugarcane farming was introduced in Kenya in 1902 but it was not until the year 1922 when Miwani Sugar Company was established near Kisumu. This was followed by subsequent construction of the following factories: Ramisi Sugar Company (1927), Muhoroni Sugar Company (1966), Chemelili Sugar Company (1968), Mumias Sugar Company (1973), Nzoia Sugar Company (1978), South Nyanza Sugar Company (1979), West Kenya Sugar Company (1981), Soin Sugar Company (2006), Kibos Sugar and Allied Industries Limited (2007) and Butali Sugar Company (2011).

Ramisi sugar factory collapsed in 1988 while Miwani sugar factory closed indefinitely in February 2001. However, at the time of doing this research, the defunct Ramisi Sugar Company was being revived under the name Kwale International Sugar Company Limited to be managed by the giant Mauritius sugar company called Omnicane. Two other sugar factories were registered in 2011: Trans-Mara Sugar Company and Sukari Industries.

According to the Kenya Sugar Industry Strategic Plan 2010-2014, these factories were initially instituted by the government with the main motivation of attaining self-sufficiency in sugar and sugar by-products such as industrial sugar, alcohol and animal feed. The second reason was to create employment to the population. Thirdly, the government wanted to improve the socio-economic welfare of the rural population and therefore check on the rural urban immigration. Lastly, the government wanted to save on foreign exchange through import substitution.
Under the sugar industry long-term policy of plant modernization, capacity expansion and privatization, it was envisaged that sufficient sugar production should be sustained at a higher level leading to surplus sugar for export market. In the 1980’s the government committed itself to major structural reforms, which included inter-alia, economic liberalization and privatization of public enterprises. Sugar factories are therefore being gradually privatized as government divests its shareholding in the ongoing restructuring of the industry. The first to go was Mumias Sugar Company that went through a very successful Initial Public Offer (IPO) in the year 2001 and another successful second public offering in 2006. At the time of this study, there was talk of privatizing Nzoia Sugar Company.

The industry’s regulatory body has also been undergoing restructuring and strengthening to enable it to address the challenges of a privatized Sugar Industry. The Kenya Sugar Board (KSB), which succeeded the defunct Kenya Sugar Authority (KSA), was established in 1st April 2002, under the Sugar Act to regulate, develop and promote the sugar industry. In 2010 they published their second strategic plan – the Kenya Sugar Industry Strategic Plan 2010-2014.

Domestic marketing of local sugar has been liberalized since 1992. Individuals and institutions are therefore free to approach any of the sugar companies with respect to procurement of sugar. In the effect of stiff market share competition posed by imported sugar, many local sugar companies have had to off-load sugar at prices way below the cost of production, a situation that is obviously un-sustainable. This has frequently distorted the market and given opportunity to unscrupulous traders who take advantage of the undefined pricing structure

The second factor to consider is the fact that the cost of farm inputs and machinery is lower in most of the countries that produce sugar in large scale. Thirdly it must also be noted that world sugar prices are at their lowest web in the history of the world sugar market. This scenario has come about due to political and economical development in
the former Soviet Union and overproduction of sugar in Brazil, Thailand and India. Until recently Brazil’s main product from sugarcane has been ethanol while sugar has been considered for a long time as a by-product. Due to the decline in demand for ethanol in Eastern Europe, Brazil switched and increased sugar production, most of which has been off-loaded to the World Market and the ultimate result has been the increase in the World Sugar surplus.

1.2 Research Problem

The sugar industry is a very important sector of this economy. According to the Kenya Sugar Board, the sector supports the livelihood of at least 25% of the Kenyan population and accounts for 15% of the agricultural GDP. It is a major source of income for over 150,000 small-scale farmers who account for over 85% of cane supply. It is the second largest contributor to agriculture gross domestic product after tea. Lastly, sugar is a major food item and a source of highly needed calories for Kenyans.

Kenya has been a member of COMESA FTA since the year 2000. However, since the year 2002, the Kenya government has been lobbying and been granted safeguards against the sugar sector on the basis that the local sugar industry will be re-structured to make it more competitive and be able to withstand unlimited importation of duty-free sugar from the COMESA member countries. These safeguards will come to an end in March 2014. The local sugar industry will then have to face a changed trading environment.

Several studies have been carried out to demonstrate the response of various organizations in different sectors of the economy to the changing environment. Njau (2000) revealed that East African Breweries Limited had made various changes in its principal brewing and bottling technologies by investing in new equipment so as to make competitive products. It also changed the basic products by adding new features. The University of Nairobi responded to environmental changes by introducing new programs based on the needs of the stakeholders, ensuring staff had performance skills and conducting review exercises (Mutua, 2004). Kenya Commercial Bank addressed changes in the trading environment by restructuring, improving marketing, investing in
information technology and culture change (Kiptugen, 2003). Gitau (2010) carried out research on how the World Health Organization in Kenya responded to the changing operating environment by applying Porter’s competitive strategies (differentiation, cost leadership and focus), applying collaborative strategies as well as applying the principles of the learning organization as outlined by Marquardt (1996). Irungu (2010) studied how the AAR Credit Services Limited responded to the changing external environment by changing their information technology systems, diversification, innovations, product differentiation, new product development, culture and organization structure changes and strategic partnerships and franchises.

Previous researchers agree that firms quickly adjusted their strategic variables depending on their uniqueness to ensure survival. No study has been done on the strategic responses of sugar companies towards COMESA FTA. It is therefore against this kind of background that the researcher finds it necessary to study the responses of the sugar companies in Kenya to COMESA FTA.

What response strategies have sugar companies put in place to face the COMESA FTA?

1.3 Research Objective

To identify the strategic responses that sugar companies in Kenya have put in place to counter the environmental challenges posed by the COMESA FTA.

1.4 Value of the Study

The findings and recommendations of this study will be very important to the stakeholders such as those in theory building, policy makers and management practitioners. It will be very important to those in the sugar industry as well as the academicians, agricultural regulators and government in general. It will help them establish adequate capability for major responses to the ever-increasing changing environment as a result of liberalization.
To the government institutions, this study will help in policy formulation. It will enable the ministries of agriculture and trade to formulate adequate policies that will enable the sugar industry to survive the effects of cheap imports.

To the researchers, this study will form a basis for further detailed studies and case studies to be conducted in specific sugar companies. It will also be helpful to managers and consultants working in the sugar industry in Kenya, as it will show the level of strategic responses the affected sugar companies have implemented in the face of the COMESA FTA protocol.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction
This section deals with the concept of the external environment and the organization and the strategic responses of organizations when faced with sudden and adverse environmental changes.

2.2 The External Environment – Organization Interface
Ansoff and McDonnell (1990) state that changes in the organization’s behaviors are necessary if the success in the transformation of the future environment is to be assured. They noted that such changes, which touch on the organization’s strategy and capability, would need to be systematically identified through a strategic diagnosis approach. This approach is derived from strategic success hypothesis, which states that a firm’s performance potential is optimum when the aggressiveness of the firm’s behavior matches the turbulence of its environment; the responsiveness of the firm’s capabilities matches the aggressiveness of its strategy; and the components of the firm’s capability
are supportive of one another. When any one of these aspects is lacking, the firm’s performance will be less than optimum. The real-time response is the action that is chosen and implemented in order to align the firm’s strategic aggressiveness to the environmental turbulence.

Therefore, an organization has to monitor its environment continuously so that it can identify any shifts that require it to adjust its strategies in response to such changes. This requires that the firm’s capabilities should be updated constantly to ensure they support the chosen strategy. As the organization’s environment changes it is necessary that the organization continuously adapts its activities and internal configuration to reflect the new external situation. Failure to do that endangers the future success of the organization (Aosa, 1998).

Porter (1991) explains the concept of dynamic strategic fit. He states that firms create and sustain competitive advantage because of the capacity to continuously improve, innovate, and upgrade their competitive advantage over time. Upgrading is the process of shifting advantages throughout the value chain to more sophisticated types and employing higher levels of skill and technology. Grant (2000) states that a successful strategy is one that is consistent with the organization’s goals, values, external environment, resources, capabilities and systems. This indicates the fact that the organization depends on the environment for its survival and the responses to the external environmental situation will determine its performance. Thus, when there are changes in the environment the organization’s capabilities and strategy would have to change in order to ensure a continued strategic fit.

Change is inevitable, as organizations do not exist in a vacuum. If the environment of the organization changes drastically, this will create pressure for change within the organization. Any company that is more of a bystander than a driver on the road to the future will find its structures, values and skills become progressively less attuned to an ever-changing industry reality.
Such a discrepancy between the pace of change in the industry environment and the pace of change in the internal environment spawns the daunting task of organizational transformation. The organizational transformation agenda typically includes downsizing, overhead reduction, employee empowerment, process redesign, and portfolio rationalization. As important as these initiatives are, their accomplishment cannot restore a company to industry leadership, nor ensure that it intercepts the future (Hammer, 1996).

2.3 Strategic Responses
Ansoff and McDonnell (1990), note that strategic responses involve changes to the organization’s behavior. Such responses may take many forms depending on the organization’s capability and the environment in which it operates. Thompson (1997) defines strategic adaptation as the changes that take place over time to the strategies and objectives of an organization. Such changes can be gradual, evolutionary or may be more dramatic as to be revolutionary.

A strategic response is one that, if implemented, will achieve the best fit for an organization. By selecting a good strategy, given the firm’s circumstances, competitive advantage will be harnessed. Well-developed and targeted strategic responses are formidable weapons for an organization in acquiring and sustaining a competitive edge. Strategic activities will inevitably result into new products, new services, new processes, new markets, abandoned markets, new competitive strategies for attacking the markets and new responses to social, political and economic challenges. The overall responsibility for effective strategic responses belong to the top management of the firm.

The effectiveness of a particular strategic response is largely a function of the firm’s operating environment (Andrews, 1971). Therefore, a strategy that is effective under one set of conditions may not necessarily be effective at a changed set of conditions.

2.3.1 Restructuring
Restructuring is both a strategic as well as an operational response which involves looking at organization as a whole. Organization structure is the established pattern of
relationship between component parts of an organization outlining communication channels, control and authority. It is also referred to as the chain of command. The levels of the structure should be as few as possible to reduce the scalar chain of command (Drucker, 1989). Too many levels bring difficulties in the understanding of the objectives and communicating both up and down the hierarchy.

One of the major activities in restructuring is business process re-engineering. Hammer (1996) notes that companies can dramatically improve their efficiency and quality by focusing on customers and processes that create value for them. Processes can become more important than their products and in fact can define the market place in which the company competes. For instance, outsourcing would enable an organization to concentrate on its core business while benefiting from the cost efficiencies of those companies that specialize in the outsourced activities. Firms can therefore design their strategies based on their processes.

Quinn (1992) states that firms generally can obtain strategic advantage by focusing on the smallest activity or cost units that can be efficiently replicated. Cost cutting efforts will lead to dramatically lower overhead costs and part of these savings can then be passed on to the consumers in the form of lower prices.

Thompson (1997) states that radical business process re-engineering implies that a firm completely re-thinks how certain tasks are carried out and searches for new ways through which performance can be improved. It leads to breaking down functional and individual job boundaries, as the process does not have to coincide with the existing department structures. It is imperative to note that speeding up activities should not compromise quality, nor should that lead to increased costs. To avoid such errors there must be continuous learning.

2.3.2 Marketing
Marketing is a social and managerial process through which individuals and organizations obtain value through an exchange process. Marketing helps to define the
business mission, its environment and competitive situation (Kotler, 2000). Environmental analysis will assist in manipulating marketing variables such as the product, price, place, promotion, people and probe to ensure relevance of the firm.

Thompson and Strickland (1993) observes that environmental scanning enables managers to identify potential developments that could have a significant impact on the industry conditions leading to the emergence of new opportunities and threats. This will help the managers to develop appropriate strategies, given the industry’s competitive situation. Strategic marketing variables, which can be manipulated as a response to a changing competitive situation, include adjusting target markets, diversification, new products, distribution changes and price cuts. An excellent way of analyzing marketing as a strategic response is to use the Product-Market Expansion Grid developed by Ansoff (1957).

2.3.3 Diversification
Diversification involves developing new products for new markets. Diversification makes sense when good opportunities can be found outside the present business circuit. Kotler (2000) states that a good opportunity is one in which the industry is highly attractive and the firm has the mix of business strengths to succeed.

Three types of diversification are possible. The firm could seek new products that have technological and/or marketing synergies with the existing product lines, even though the new products themselves may appeal to a different group of customers. This is called concentric diversification. Secondly, the firm may look for new products that may appeal to its current customers even though the new products are technologically unrelated to its current products. This is called horizontal diversification. Lastly, the firm may look for new businesses that have no relationship to the current technology, product or market. This is called conglomerate diversification.

East African Breweries Limited made various changes in its principal brewing and bottling technologies by investing in new equipment so as to make competitive products.
It also changed the basic products by adding new features (Njau, 2000). The University of Nairobi responded to environmental changes by introducing new programs based on the needs of the stakeholders, ensuring staff had performance skills and conducting review exercises.

2.3.4 Leadership

According to Kotler (1990), leadership is about coping with change. Part of the reason leadership has become so important in recent years is that the business world has become more competitive and more volatile. Major changes are more and more necessary to survive and compete effectively in this new environment. More change always demands more leadership.

Pearce and Robinson (2003), observe that organizational leadership involves action in first guiding the organization to deal with constant change, clarifying strategic intent and shaping the culture to fit with opportunities and challenges that change affords and identifying and supplying the organization with operating managers who are prepared to provide leadership and vision.

Ansoff and McDonnell (1990), characterize organization leadership as a general management capability. They define general Management Capability as the propensity and ability of the general management to engage in behavior, which will optimize attainment of the firm’s short and long-term objectives. They see general management’s role as that of a developer of the firm’s future. The successful performance of this role requires a climate within the firm, which welcomes and seeks change, a competence to anticipate, analyze and select attractive opportunities. They recognize that general management capability is determined by qualifications and mentality of key managers, social climate (cultures) within the firm, power, structure, systems and organization structure and capacity of general management to do managerial work.

2.3.5 Culture Change
Brown (1998) defines organization culture as the established pattern of beliefs, values, and learned ways of coping with experiences that have developed during the course of the organization’s history and which tend to be manifested in material arrangements and in the behavior of its members. Thus, an appropriate and cohesive culture can be a source of competitive advantage. This is because it promotes consistency, coordination and control and reduces uncertainty while enhancing motivation and organization effectiveness, all of which facilitate the chances of being successful in the market place. Therefore, corporate cultural identity, for a marketer, is a strategic tool that is used to manipulate consumer perceptions of an organization and its products.

According to Thompson (1997), the potential for changing the culture of an organization is affected by the strength and history of the existing culture, how well the culture is understood, the personalities of the strategic leader and the extent of the strategic need. According to Pearce and Robinson (2003) organizational culture is the set of important assumptions (often unstated) that members of an organization share in common. An organization’s culture is similar to an individual’s personality - an intangible, yet ever-present theme that provides meaning, direction and the basis of action. Insightful leaders nurture key themes or dominant values within their organizations that reinforce the competitive advantages they pose or seek, such as quality, differentiation, cost and speed.

The most typical beliefs that shape organization culture include a belief in being the best, a belief in superior quality and service, a belief in the importance of details of execution, the nuts and bolts of doing the job well, a belief that customers should reign supreme. One approach of developing a culture of quality is through Total Quality Management (TQM) whose ideas and principles were empowered by Deming way back in 1950. TQM focuses management on the continuous improvement of all operations, functions and above all, processes of work. It is built around an intense focus on customer satisfaction, on accurate measurement of every critical variable in a business operation, on continuous improvement of products, services or work relationships based on trust and teamwork. An important tool of TQM is benchmarking whose objective is to identify the “best
practices” in performing an activity to learn how to minimize defects costs, or other outcomes linked to excellence are achieved.

The culture of an organization may need to be changed when it does not fit well with the requirements of the current and future environment or the organization’s resources, the organization is not performing well and needs a major strategic change or when the organization is growing rapidly in a changing environment and needs to adapt.

Culture change and corporate learning are interdependent. The rate of organization learning is dependent on culture while the rate and content of organization learning fundamentally influences the organization’s culture. Thus, culture change is a process of learning. Indicators of cultural shifts include changes in architectural designs and branding of corporate buildings, the changes in organization logo, changes in nature of internal communication, change in office design as well as changes in dress code.

### 2.3.6 Porter’s Competitive Strategy Model

Porter (1998) states that the goals of a competitive strategy for a business unit in an industry is to find a position in the industry where the firm can best defend itself against the five competitive forces – threat of new entrants, suppliers, buyers, substitute products and rivalry among the existing competitors. These five forces constitute the industry structure and it is from industry analysis that the firm determines its competitive strategy. Porter further identified three generic strategies that a firm can use to outperform others in the industry – overall cost leadership, differentiation and focus.

In a manufacturing set-up, perhaps the two applicable generic strategies will be cost leadership and differentiation. In formulating its strategic response to changes in the environment, a firm must have first decided on a basic idea of generic strategy about how it can best compete in the market place. Pearce and Robinson (2003) stresses that knowledge of these underlying sources of competitive pressure provides the foundation for the strategic agenda or action. The World Health Organization in Kenya responded to the changing operating environment by applying Porter’s competitive strategies.
(differentiation, cost leadership and focus), applying collaborative strategies as well as applying the principles of the learning organization as outlined by Marquardt (1996), (Gitau 2010).

2.3.7 Information and Communication Technology (ICT)

The computer and developments in telecommunication are the most important aspects of ICT that have transformed the business environment and process. According to Porter (1998) technological change, especially information technology, is amongst the most important forces that can alter the rules of competition.

Rayport and Sviokla (1995) state that competition is defined along two dimensions: the physical world of resources and the virtual world of information. Information supports and enhances every activity in the organization and it can itself be a source of added value and, hence, competitive advantage, provided organizations are able to draw that value.

Gilbert (1995) notes that strategically successful organizations obtain market feedback continuously and rapidly and adapt to the feedback ahead of their rivals in the industry. They exploit the potential of strategic as well as competitive and operating information systems. Some of the information technology variables that can influence a firm’s response include usage of real-time systems, extent of interconnectivity of distribution channels as well as the efficiency of the telecommunication systems.

As a result of the economy’s progressive decline and liberalization, legislative changes and technological advance, Kenya Commercial Bank Limited responded by restructuring its operations through closure of branches, disposal of non-core assets, developing of new marketing strategies, acquisition of a flexible IT system to provide better quality customer service and culture change (Kiptugen, 2003). Irungu (2010) found that AAR Credit Services Limited responded to the changing external environment by changing their information technology systems, diversification, innovations, product
differentiation, new product development, culture and organization structure changes and strategic partnerships and franchises.

CHAPTER THREE: RESEARCH METHODOLOGY
3.1 Introduction
This chapter presents the methodology that was used to carry out the study. The chapter considers fully the methods that were used to collect the primary as well as the secondary data as required by the study. In this chapter, the researcher discusses the research design, the population size and samples that were used. The researcher also discusses how the data was analyzed and gives details of any models or programmes that were used in the analysis and reasons why particular models or programmes were used.

3.2 Research Design
A cross-sectional descriptive survey was considered the most appropriate for this kind of research. A survey research refers to a set of techniques for collecting data on human characteristics, attitudes, thoughts and behavior by obtaining responses from individuals to a set of prepared questions (Doyle, 2004). A descriptive survey normally attempts to describe or define a subject by creating a profile of a group of problems, people or events, through the collection of data and tabulation of the frequencies or their interaction (Cooper and Schindler, 2003). The choice of this research design was based on the fact that it was the most appropriate in providing adequate data for analysis and drawing of accurate conclusions. The other reason for this choice is that the researcher was interested in finding out the state of affairs existing in the field and there were no variables that could be manipulated.

3.3 Population
The target population of this study was all the 11 sugar companies licensed by the KSB as at March 2012. Because of the relatively small population and the fact that the respondent companies were well within the same geographical area, this was therefore a census study and the population was all the eleven sugar companies licensed by the Kenya Sugar Board and operating in Kenya at the time of the study, that is, March 2012.

3.4 Data Collection
Data for the purpose of the study was collected using a questionnaire addressed to the senior managers of the sugar companies. The questionnaire was structured to be filled by any member of the senior management group in the respondent companies. The reason for this was that formulation and implementation of strategic responses are top-level decisions and information pertaining to these decisions can only be obtained from senior personnel. The questionnaire was the primary data collection tool. It was distributed physically to the respondent companies through the heads of human resource departments.

Secondary data was collected by way of an interview with the chief economist of the Kenya Sugar Board. The purpose of this interview was to make certain confirmations such as employee numbers and installed capacities.

The questionnaire was designed to address the research question. It was divided into four sections. Section A addressed the general profile of the company such as ownership structure, employee numbers, core departments and installed capacity. Section B addressed the general factors identified by the government as making locally produced sugar uncompetitive locally, regionally and internationally. Section C dealt with the strategic responses to the challenges enumerated in section C. Section D consisted of two open questions about the perception of the future. The questionnaire consisted of both open ended and closed-ended questions that were intended at weighing the perceptions of the respondents on the factors under study.

The researcher travelled from one company to another, distributing the questionnaires and waiting for them to be filled. On a few occasions, the respondents sought clarifications before completing the exercise. An introductory letter addressed to the head of human resources accompanied the questionnaire to give authenticity to the research and explain the purpose of the survey. In nearly all the cases, the respondents were kind enough to tell the researcher to wait for the questionnaire to be completed. The total number of questionnaires given out was 11 and 7 were completed and returned. Three of
the respondent declined to give any responses and gave the reason that they were too new in the industry. One respondent did not cooperate.

Out of the 11 questionnaires that the researcher gave out, 7 were returned. The response rate was therefore 64%. This percentage fairly represents the entire population. Mugenda and Mugenda (2003) recommended that a 50% return rate is a fair representation of the population in any research. Therefore, a response rate of 64% is very good for purposes of research conclusions. Furthermore, of the 4 companies that did not respond, 3 were less than two years old in the industry and they gave this factor as the reason for their non-response.

**Table 3.1: Response Rate**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Validly Returned</td>
<td>7</td>
</tr>
<tr>
<td>Not Returned</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
</tr>
</tbody>
</table>

According to the above Table 3.1 the response rate was 64%.

3.5 Data Analysis

The data and information collected through the questionnaire was first checked for completeness. The questionnaires found to be correctly filled and fit for analysis were coded and all the data entered into a statistical package for social science analysis and analyzed based on the descriptive statistics. The descriptive statistics used include percentages, ratios, mean scores and standard deviation. Cross tabulation was also used on weighing those environmental challenges that were prevalent and those strategic responses that were employed in the particular circumstances.

Percentages were used to determine comparative factors in the company profile aspect. Mean scores were used to determine the importance attached to the environmental challenges affecting the competitiveness of locally produced sugar and the strategic
responses that deal with the environmental challenges. Standard deviation was used to measure the dispersion of individual scores from the mean.

CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSION

4.1 Introduction
This chapter presents the analysis and findings of the study as set out in the research methodology. The results are presented in the order of the objectives, that is, to establish the factors making the locally produced sugar to be uncompetitive regionally and internationally and to identify the strategic responses that the companies in the sugar industry in Kenya have put in place to counter the effects of the full implementation of the COMESA FTA. The questionnaire was designed in line with the objectives of the study.

4.2 Profile of Respondent Organizations
The profile of an organization is an important aspect of a research project. In this case the researcher decided to profile the respondent organizations in terms of number of years of operation, ownership structure, staff establishment, installed crushing capacity (TCD) core departments and range of products.

4.2.1 Years of Operation
The number of years of operation of any business is very important because it enables the study of the relationship between operational experience and experience in implementation of Strategic responses to changes in the external environment. The results were as presented in Figure 4.1.

From Figure 4.1 it can be established that the majority of the companies (71%) had operated for more than 30 years. From these findings, therefore, the majority of the companies were well established and therefore subsequently it is expected that they are well experienced in the areas of strategy and strategic responses to changes in the
external environment. Furthermore, it means these companies have been around all along since the protocol of COMESA was first discussed in the early 1990s.

**Figure 4.1: Years of Operation**

![Years of Operation Graph]

Source: Research Data 2012

**4.2.2 Ownership**

The ownership structure of any business organization has a bearing on the overall strategic direction of the organization. It is a well established fact that government organizations have a lot of bureaucracy in terms of implementing any procedure. There is also bureaucracy in procurement as well as raising funds. In the private sector, such bureaucracies do not exist and decisions are usually made on time. The results were as presented in Figure 4.2 below.

From Figure 4.2, it can be established that the majority (57%) of the sugar companies are government-owned. In fact, only one company, Mumias, is co-owned by the government and the private sector. Only 29% of the respondents indicated they were completely private. These results will help to determine the strategic direction of these companies, especially those that are government-owned.
4.2.3 Size in terms of Employees

The size of a business organization in terms of employees gives the study an overview of the growth and development of that business based on the staff establishment. This may help the researcher to determine if the growth in employee numbers was influenced by the growth strategy of that business or other factors. The results were as presented in Figure 4.3 below.

**Figure 4.3: Number of employees**
From the above Figure 4.3 it can be established that Mumias Sugar Company is the leading employer with 1800 employees, followed by Nzoia, Butali and Sony with 1345, 1300 and 1200 employees respectively. The smallest employer among the respondents was Kibos and Allied Sugar Company with only 396 employees. These results will be read together with the results of other variables such as the installed capacity to determine whether there are any inter-relationships.

4.2.4 Size in terms of Installed Crushing Capacity

The size of the sugar factory in terms of its installed capacity gives an overview of the relationship between this variable and other variables such as the ownership structure, the age of the business, and the number of employees in the establishment. This particular variable was not completed properly from the research questionnaire. Some respondents gave answers about tons of finished white sugar produced per day while other gave answers about the tons of raw cane crushed per day. The industry practice is to rate the tons crushed per day (TCD). It was therefore necessary to obtain secondary data from the Kenya Sugar Board.
The results in the following Figure 4.4 were obtained from a secondary source, The Kenya Sugar Board.

**Figure 4.4: Installed Crushing Capacity (TCD)**

From Figure 4.4 it can be established that Mumias Sugar Company has an installed TCD of 9,200 tons, three times more than the capacities of the next three factories, Nzoia, Chemelil and Sony. In fact it can be concluded from the above figure that Mumias has an installed capacity of the other three factories combined. However, when one looks at the staff establishment one can see that the numbers at Mumias are only slightly above the numbers at the next three factories. Therefore, it can be concluded that if productivity per employee is computed then Mumias will score higher than the other factories.

**4.2.5 Core Departments**

The respondents were asked to name their core departments. This was an open-ended question.

The purpose of this question was to identify what areas are most emphasized in the respondent companies.

The results were as depicted in Figure 4.5 below.

**Figure 4.5: Core Departments**
From the above Figure 4.5, all the respondents named Agriculture and Factory (Production) as core departments. The next most important department according to the respondents was the Human Resources department named by 6 respondents (86%). Five respondents (71%) named Finance as the third most important department. Sales and Marketing (57%) and Purchasing were also named. Only two respondents had ICT as an independent department. None of the respondents named Strategic Planning as a department.

4.2.6 Range of Products
In this section, the respondents were asked to name other products that they produce apart from sugar-related products.

The results were as depicted in Figure 4.6 below.

Figure 4.6 Range of Products
From Figure 4.6 it can be established that the majority of the respondent companies (57%) had not tried diversification as a strategy. Only 43% of the respondents had diversified to other products. Of those that had diversified, one was producing electricity and bottled water while the other two were producing water and electricity respectively. From these responses, it can be concluded that there is over-reliance on one product.

4.3 Competitiveness of the Kenya Sugar Industry

In this case the respondents were asked to rate the 12 challenges that the government of Kenya had identified as those making locally produced sugar uncompetitive both regionally and internationally. The ratings were as follows: To a great extent = 5, To some extent = 4, Neutral = 3, To a little extent = 2, and Not at all = 1. Total scores for each factor were computed and the mean score and standard deviation for each factor computed. The challenges that scored a mean of above 4 were translated to mean that they were rated highly while those that scored below a mean of 4 were translated to mean they were of no consequence. A lower standard deviation means the factor affected all respondents evenly. The results were as presented in Table 4.1.
Table 4.1: Factors affecting competitiveness of locally produced sugar

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean Score</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>High cost of farm inputs</td>
<td>4.86</td>
<td>0.35</td>
</tr>
<tr>
<td>Uneconomical plot sizes of farmers</td>
<td>4.57</td>
<td>0.49</td>
</tr>
<tr>
<td>Weak management of farmers institutions</td>
<td>4.43</td>
<td>0.90</td>
</tr>
<tr>
<td>Lack of diversification</td>
<td>4.43</td>
<td>1.05</td>
</tr>
<tr>
<td>Poor physical infrastructure</td>
<td>4.14</td>
<td>0.99</td>
</tr>
<tr>
<td>Inadequate funding for maintenance</td>
<td>4.14</td>
<td>1.12</td>
</tr>
<tr>
<td>Inadequate research services</td>
<td>3.86</td>
<td>0.83</td>
</tr>
<tr>
<td>Unpredictable weather patterns</td>
<td>3.86</td>
<td>1.36</td>
</tr>
<tr>
<td>Low cane crushing capacity</td>
<td>3.43</td>
<td>2.64</td>
</tr>
<tr>
<td>Inadequate funding for cane development</td>
<td>3.29</td>
<td>1.45</td>
</tr>
<tr>
<td>Low sugar extraction parameters</td>
<td>3.00</td>
<td>2.62</td>
</tr>
<tr>
<td>Poor crop husbandry</td>
<td>2.14</td>
<td>0.83</td>
</tr>
</tbody>
</table>

Source: Research Data 2012

The findings in Table 4.1 indicate that the major challenge was the high cost of farm inputs (mean score of 4.86 and standard deviation of 0.35). This was ranked high (5) by all respondents except one that ranked it as 4. The second ranked challenge was the uneconomical size of farmers’ plots (mean score of 4.57 and standard deviation of 0.49). The third ranked challenge was the weak management of farmers’ institutions (mean score of 4.43 and standard deviation of 0.90). This factor scored the same as lack of diversification (mean score of 4.43 but with a standard deviation of 1.05)). It was not clear how these two factors actually impact on the price of locally produced sugar. The fifth ranked was poor physical infrastructure with a mean score of 4.14 and standard deviation of 0.99. This was ranked same as inadequate funding for maintenance but which had a standard deviation of 1.12.

4.4 Strategic Responses to COMESA FTA

The study was aimed at establishing the strategic responses implemented by the sugar companies in Kenya to deal with the challenge posed by the imminent full implementation of the COMESA FTA protocol and which will mean that there will be unlimited importation of cheaper sugar from COMESA member countries. This section
provides the analysis of the different responses from questions directed at respondents to find out whether they had made any strategic responses, whether those responses were adequate and to rate the specific responses from a set of possible strategic responses.

### 4.4.1 Response threat of cheap sugar imports

The first question to the respondents was whether they have responded to the imminent threat of cheap sugar as a result of full implementation of the COMESA FTA in March 2014. The results were as depicted in Figure 4.7.

**Figure 4.7: Response to Threats**

![Bar Chart: Response to Threats](image)

**Source: Research Data 2012**

The findings in Figure 4.7 indicate that only 43% had strategic responses to the environmental threat. The majority (57%) implied that they had not developed any strategic responses. These findings are very interesting because it was expected that majority should have developed strategic responses to this threat that has been around for a long time, given that all these companies have been aware of the COMESA problem.

### 4.4.2 Adequacy of the Response

The second question to those who had responded to the threat was whether they considered their response as adequate. The results were as depicted in Figure 4.8.
The findings in Figure 4.8 indicate that the majority (67%) of those who have put in place strategic responses believe that these responses are adequate. One respondent (33%) indicated that the strategic responses they had so far are not adequate.

**4.4.3 Strategic Responses**

The study was aimed at establishing the strategic responses implemented by the sugar companies in Kenya to deal with the challenge posed by the imminent full implementation of the COMESA FTA protocol and which will mean that there will be unlimited importation of cheaper sugar from COMESA member countries. The respondents were required to rate some of the common strategic responses that organizations adopt in a changing business environment. They were required to indicate to what extent their respective companies had applied each of these strategies. The ratings were Not done at all = 1, To a little extent = 2, About 50% done = 3, Implemented 75% = 4 and Fully implemented = 5.

**Source: Research Data 2012**

![Figure 4.8: Adequacy of Responses](image)
The strategic responses which scored a mean of above 3 were translated to mean that they have been implemented or were being implemented while those that scored a mean of below 3 were translated to mean they had not been implemented. The results were as depicted in Table 4.2 below.

### Table 4.2: Strategic Responses

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Mean Score</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing Marketing Activities</td>
<td>3.71</td>
<td>0.70</td>
</tr>
<tr>
<td>Leadership (guiding the company to deal with constant change)</td>
<td>3.71</td>
<td>0.88</td>
</tr>
<tr>
<td>Increased use of ICT in all processes including manufacturing</td>
<td>3.43</td>
<td>1.50</td>
</tr>
<tr>
<td>Culture change (belief in being the best, e.t.c)</td>
<td>3.29</td>
<td>1.36</td>
</tr>
<tr>
<td>Restructuring (business process engineering e.t.c)</td>
<td>2.86</td>
<td>1.73</td>
</tr>
<tr>
<td>Cost leadership (lower cost of production)</td>
<td>2.86</td>
<td>1.62</td>
</tr>
<tr>
<td>Diversification (introducing other products)</td>
<td>2.57</td>
<td>1.39</td>
</tr>
</tbody>
</table>

**Source: Research Data 2012**

From Table 4.2 it can be established that increasing marketing activities ranked the highest strategic response (mean score 3.71 and a standard deviation of 0.70), same as leadership strategy (which, however, had a standard deviation of 0.88). The next highly ranked strategic response was increased use of ICT (mean score 3.43 and standard deviation of 1.50). The last of the top four highly ranked strategic responses was culture change (with a mean score of 3.29 and a standard deviation of 1.36).

It is imperative to note that restructuring, cost leadership and diversification were ranked low as key strategic responses yet the challenge was how to address the uncompetitive price of locally produced sugar. Ordinarily these last three should have ranked highest. From this finding, one can conclude that these companies are applying wrong strategies to address the question of why locally produced sugar is uncompetitive both regionally and internationally.
4.5 Perception about the Future

In this section, the respondents were asked a closed-ended question about the future perception. The question was what, in the opinion of the respondent, was the future of the sugar industry in Kenya. The respondent was to say whether the future was bright, bleak or survival for the fittest.

The results were as shown in Figure 4.9 below.

**Figure 4.9 Perception of the Future**

![Bar chart showing the perception of the future with 57% for survival, 29% for bright, and 14% for bleak.](Image)

**Source: Research Data 2012**

Form the above findings, the majority of the respondents (57%) believe the future is survival for the fittest. Only 29% of the respondents believed the future was bright while 14% believed the future was bleak.

When asked about their suggestions on the way forward, three respondents out of the four government-owned companies (75%) suggested that privatization was the best solution. One suggested that privatization will attract serious investors who can rehabilitate the factories, expand the milling capacity and introduce appropriate cane development technologies to reduce the cost and maximize profitability. The other one suggested that
privatization will facilitate restructuring of the factories and ensure total corporate culture change.

One government-owned company suggested that the KSB should take charge of the process of coming up with strategies that ensure the survival of the sugar companies in Kenya and that this should be in tandem with the respective strategies of the individual companies. Another suggestions put forward by the respondents was that the government should reduce taxes on farm machinery and farm inputs.

4.6 Discussion

The study was aimed at establishing the strategic responses implemented by the sugar companies in Kenya to deal with the challenge posed by the imminent full implementation of the COMESA FTA protocol and which will mean that there will be unlimited importation of cheap sugar from COMESA member countries. The study had a response rate of 64%. This percentage fairly represents the entire population. Mugenda and Mugenda (2003) recommended that a 50% return rate is a fair representation of the population in any research. The study established that the majority of the sugar companies (71%) were well established, having been in business for more than 30 years. Mumias Sugar Company is the biggest in terms of number of employees and installed crushing capacity. All respondents identified Agriculture and Production as the core departments. Majority of the respondents identified the major challenges as high cost of farm inputs, uneconomical size of farmers’ plots and weak farmers’ institutions. Other challenges that were identified were lack of diversification, poor physical infrastructure and inadequate funding for maintenance.

Only 43% of the respondents have developed strategic responses to the challenges. However, 33% of those who have responded think that the responses are not adequate. The majority of the respondents stated that they have not developed any strategic responses to the challenges. When asked which strategies they were likely to adopt the following strategic responses were ranked highly (mean score above 3): increased marketing activities, leadership, use if ICT and culture change. Strategic responses such
as cost leadership, diversification and restructuring ranked very low (mean score of below 3).

From the study, it is clear that top management leadership is very key in ensuring appropriate strategic responses are devised. This agrees with strategic management theory that team work and top management support, commitment and monitoring are very important for organizations to respond effectively to external environmental turbulence. Kanter (2004) concluded that in order to adapt to environmental changes, firms require effective leadership. Leadership and strategic management have a great impact on an organization in relation to its external environment.

Another key strategic response identified was investment in ICT. Hill (2003) concluded that technology can be a source of phenomenal growth and this can improve an organization’s capability in gaining a competitive edge. Ndubi (2006) also noted that technology is a significant factor in responding to changes in business operating environment. Culture change is also identified as a key strategic response. This implies that an organization cannot exist in a vacuum. According to Hill and Jones (1998), every organization exists within its own environment and it is influenced by its external environment. Therefore, knowledge of the competitive rivalry is of utmost importance to strategic management, Porter (1980).

The majority of the companies see the future as that of survival for the fittest. The most outstanding recommendation is that government owned companies should be privatized before meaningful restructuring could take place.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
The purpose of this study was to establish the strategic responses implemented by the sugar companies in Kenya to deal with the challenge posed by the imminent full
implementation of the COMESA FTA protocol. This chapter contains a summary of the results as presented in the previous chapter and gives conclusions and recommendations based on the findings of the study. The chapter also lays out the limitations of the study based on the analysis of the entire study. Finally, it provides suggestions for further research.

5.2 Summary of Findings
The purpose of the study was to establish the strategic responses implemented by the sugar companies in Kenya to deal with the challenge posed by the imminent full implementation of the COMESA FTA protocol. The study established that the majority of the sugar companies (71%) were well established, having been in business for more than 30 years. Mumias Sugar Company is the biggest in terms of number of employees (1,800) and installed crushing capacity (9,200 TCD). All respondents identified Agriculture and Production as the core departments.

Majority of the respondents (mean score above 4) identified the high cost of farm inputs, uneconomical size of farmers’ plots and weak farmers’ institutions as major challenges making locally produced sugar to be uncompetitive locally and regionally. Other challenges that were identified included lack of diversification, poor physical infrastructure and inadequate funding for maintenance.

From the findings, only 43% of the respondents have developed strategic responses to the challenges. However, 33% of those who have responded think that the responses are not adequate. The majority of the respondents (57%) stated that they have not developed any strategic responses to the challenges. When asked which strategies were adopted by their organizations, the following strategic responses were ranked highly: increased marketing activities and leadership (mean score 3.71), use if ICT (mean score 3.43) and culture change (mean score 3.29). It is interesting to note that strategic responses such as cost leadership, diversification and restructuring ranked very low (mean score of below 3).

The majority of the companies see the future as that of survival for the fittest. The most outstanding recommendation is that government owned companies should be privatized before any meaningful restructuring could take place.
5.3 Conclusions
The purpose of the study was to establish the strategic responses implemented by the sugar companies in Kenya to deal with the challenge posed by the imminent full implementation of the COMESA FTA protocol. From the findings, it can be concluded that all the companies in the sugar industry in Kenya are aware of the challenges that make locally produced sugar to be uncompetitive. From the findings, it can also be concluded that the majority of the companies have not made strategic responses to the above challenges. 67% of those who have made strategic responses believe the strategic responses are adequate while 33% believe the strategic responses are not adequate.

Increasing marketing activities is rated as a major strategic response. The other strategic response that ranked equally with increasing marketing activities was leadership. The other strategic responses rated highly were the use of ICT and culture change. It is interesting to note that cost leadership, restructuring and diversification are not rated as important strategic responses. From these findings then it is logical to conclude that these companies have not developed appropriate strategic responses to address the challenge of the uncompetitive price of locally produced sugar.

5.4 Recommendations for Policy and Practice
Majority of the respondents identified the high cost of farm inputs, uneconomical size of farmers’ plots and weak farmers’ institutions as major challenges making locally produced sugar to be uncompetitive locally and regionally. Other challenges that were identified included lack of diversification, poor physical infrastructure and inadequate funding for maintenance. Therefore, appropriate strategies should be formulated to address each of these challenges.

When asked which strategies were adopted by their organizations, the following strategic responses were ranked highly: increased marketing activities and leadership, use if ICT and culture change. Of these three responses, one can conclude that only ICT can have a direct effect on cost reduction in the long run. It is interesting to note that strategic responses such as cost leadership, diversification and restructuring ranked very low. All
government owned companies indicated that only privatization can result in meaningful restructuring.

From the above observations, it is clear that the relevant government agencies such as the KSB should take a lead in guiding the sugar industry out of the impending collapse. The companies themselves see the future as survival for the fittest. This means that they do not have confidence of survival in the face of full implementation of the COMESA FTA.

5.5 Limitations of the Study
The study focused on the challenges that the government of Kenya had identified as making the locally produced sugar to be uncompetitive both regionally and internationally. The strategic responses were given from a closed-ended question. Perhaps it is because of this approach that the respondents rated highly the strategic responses which do not really address the cost element.

Secondly the questionnaires were filled by senior managers identified by the head of human resources. In some cases the questionnaires were actually filled by the head of human resources. The chief executives filled none of the questionnaires. It is important to note that the human resources department was rated as the third most important department by all the respondents. Perhaps this response was due to the fact that majority of the managers who filled the questionnaire were in that department.

5.6 Suggestions for Further Research
Because of the above limitations, the researcher recommends that further research on this subject should be conducted. A different data collection method such as personal interview should be employed. In the recommended further research, more open-ended questions should be used to give the respondents room and freedom to state the really situation on the ground. It would also be very useful if only the chief executives were interviewed.
REFERENCES


*Study of sugarcane and sugar production costs in Kenya: Implications under a liberalized marketing system*. Kenya Sugar Authority, Dec 1996


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The Standard, Various dates in 2011

The Economic Survey 2011, Ministry of Planning & National Development

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The Sugar (Amendment) Bill 2011, Government of Kenya

Czarnikow Sugar 2010/11, Oct/Sep 2011

APPENDIX 1: QUESTIONNAIRE

A. PROFILE

Please answer the following questions.

1. Name of the company

2. Title of respondent

3. When was the company established?


5. How many employees do you currently have?

6. What are the main areas of operation (core departments)?

7. What is the current capacity (production in tons per day)?

8. What other products do you produce?
9. What is the size of your nucleus estate?  ----------------- Hectares

10. What is the size of your contracted farmers?  ----------------- Hectares

**B  GENERAL**

The government identified the following as factors that made the locally produced sugar uncompetitive, both regionally and internationally. Please indicate the extent to which your company is affected by these factors (5 – To a great extent, 4 – To some extent, 3 – Neutral, 2 – To a little extent, 1 – Not at all)

i. Low cane crushing capacity          1  2  3  4  5

ii. Low sugar extraction parameters    1  2  3  4  5

iii. Poor crop husbandry               1  2  3  4  5

iv. Poor physical infrastructure      1  2  3  4  5

v. Inadequate research services       1  2  3  4  5

vi. Unpredictable weather patterns    1  2  3  4  5

vii. Inadequate funding for cane       1  2  3  4  5
development

viii. Inadequate funding for maintenance 1  2  3  4  5

ix. High cost of farm inputs          1  2  3  4  5

x. Uneconomical plot sizes of farmers 1  2  3  4  5

xi. Weak management of farmers         1  2  3  4  5
institutions

xii. Lack of diversification           1  2  3  4  5
C. STRATEGIC RESPONSES

As you are aware, the full implementation of the COMESA FTA as regards the sugar sector has been postponed since 2002. As a result of the recent lobbying by the government, the full implementation will now come into effect in March 2014. The effect of this development will be that there will be unlimited importation of duty-free sugar from the COMESA member states. This imported sugar is likely to be cheaper than the locally produced sugar.

1. Have you responded to the above challenges? Yes (   ) No (   )
2. Do you think your responses are adequate? Yes (   ) No (   )
3. Below are some possible strategic responses that organizations adopt in a changing business environment. Please indicate the extent to which your company has applied each of these strategies. (1-Not done at all, 2-To a little extent, 3- About 50% done, 4- Implemented 75% 5- Fully implemented)

<table>
<thead>
<tr>
<th>Strategic Response</th>
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<th>2</th>
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<th>5</th>
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<tbody>
<tr>
<td>Restructuring (business process engineering e.t.c)</td>
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<td>Increasing Marketing Activities</td>
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<td>Diversification (introducing other products)</td>
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<td>Leadership (guiding the company to deal with constant change)</td>
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<td>Culture change (belief in being the best, e.t.c)</td>
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<tr>
<td>Cost leadership (lower cost of production)</td>
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<td>Increased use of ICT in all processes including manufacturing</td>
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</table>

**D. ADDITIONAL INFORMATION**

a) What, in your opinion, is the future of the sugar sector in Kenya?

Bright ( ) Bleak ( ) Survival for the fittest ( )

b) What is your suggestion for the way forward?

__________________________________________________________________
__________________________________________________________________
__________________________________________________________________
__________________________________________________________________

THANK YOU FOR YOUR COOPERATION
APPENDIX 2: SUGAR COMPANIES IN KENYA – MARCH 2012

1. Mumias Sugar Company
2. Nzoia Sugar Company
3. Sony Sugar Company
4. Muhoroni Sugar Company
5. Chemelili Sugar Company
6. West Kenya Sugar Company
7. Soin Sugar Company
8. Kibos and Allied Sugar Company
9. Butali Sugar Company
10. Trans Mara Sugar Company
11. Sukari Industries
March 22, 2012

The Human Resources Manager

.................................................................Ltd

P O Box ........................................

Dear Sir

**Re: REQUEST TO COLLECT DATA FOR MBA RESEARCH PROJECT**

I am a student of MBA at the University of Nairobi pursuing a Master of Business Administration program. As a prerequisite of the course work, I would like to conduct a research project on **THE STRATEGIC RESPONSES BY SUGAR COMPANIES IN KENYA TO COMESA FREE TRADE AGREEMENT**. I would like to interview the Managing Director or any designated senior manager in the absence of the Managing Director.

I therefore kindly request for your authority to enable me conduct my research in your company. I enclose herewith an introduction letter from the University of Nairobi. Your assistance is highly valued.

Thanks in advance.

Yours faithfully

**Romano M Wachiye**

**MBA STUDENT**
**UNIVERSITY OF NAIROBI**