

**RESPONSE STRATEGIES OF HACO INDUSTRIES KENYA LIMITED
TO THE CHALLENGES OF COUNTERFEIT PRODUCTS IN EAST
AFRICA**

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DECLARATION

This research project is my original work and has not been submitted for a degree course in this or any other university.

Signed Bwaka

Date 12/09/07

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This research project has been submitted for examination with my approval as a University Supervisor.

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DEDICATION

To my Mother Dr. Alice Owano who has been very supportive and encouraging through out the programme. Whose love and belief in me has enabled me strive for excellence in everything that I do.

To my Sister Linda Waka and my Nephew Ryan Omwakwe for their unwavering love and support.

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ABSTRACT

The proposed Kenya Anti-Counterfeit Bill 2005, describes counterfeiting as "the manufacture, producing, packaging, re-packing, labeling or making, whether in Kenya or elsewhere, of any goods whereby those protected goods are imitated in such manner and to such a degree that those other goods are identical or substantially similar copies of the protected goods".

The trade in counterfeits is a growing menace in the developing world due to a combination of lax local laws and low purchasing power of the citizens. However this is not the only negative effect that counterfeit goods pose, counterfeit goods are causing a great loss in sales by the manufacturer of the branded product, and causing millions in lost revenue to the government as importers of counterfeit products usually evade paying taxes.

Manufacturing firms are the ones worst affected by this influx of counterfeit products as they lose revenue and market share to counterfeit products. This problem has escalated over the past few years, to a situation where many manufacturing firms are choosing to shut down their operations in Kenya because they cannot sustain their operations with the unfair competition that is posed by counterfeit products.

The government has also realized that the issue of counterfeits is a serious threat to development as in destroying manufacturing it is not only leading to loss of jobs for Kenyans, but to loss of revenue for the government which it gets through various taxes that manufacturing firms pay.

The research objective was to determine the response of Haco Industries Kenya Limited, a Kenyan manufacturing firm to the threat posed by counterfeit products. A case study was conducted on how Haco Industries Kenya Limited has dealt with this menace in the entire East African region in which it trades as it experiences the influx of counterfeit products which has affected the sale of its products in these markets.

The study was conducted by administering interview guides to various levels of management of Haco Industries Kenya Limited to find out how they rate the economic environment in which they operate, the threat of counterfeit products to their business and how they have responded to

the threat in the countries in which they trade which include, Kenya, Uganda, Tanzania, Rwanda and Burundi.

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INTRODUCTION

1.1 BACKGROUND

1.1.1 Response Strategies

A host of external factors influence a firm's choice of direction and action and ultimately, its organizational structure and internal processes (Pierce and Robinson 1997). These factors which constitute the external environment, can be divided into three sub-categories: factors in the remote environment, factors in the industry environment and factors in the operating environment. Organizations are environment dependant. No organization can exist without the environment (Ansoff 1984). They depend on the environment for their survival and they scan the environment to identify budding trends and conditions that could eventually affect the industry (Thompson & Strickland 1993). Failure to do this will lead to serious strategic problems characterized by the maladjustments of organizations output and the demands of the external environment (Ansoff and McDonnell 1997).

Responses of any organization can be both strategic and operational. The link between overall strategy and operational aspects of an organization is important because if the operational aspects of the organization are not in line with strategy then no matter how well considered the strategy will not succeed.

1.1.2 Counterfeit Products and Firm Responses

Counterfeits are products made to copy the original products, usually with the intent to defraud (Holyoak and Torremans 2001). In the 1960s and 70s trade in counterfeit products was rampant in South East Asia, before moving to Latin America and now Africa. According to trade experts, there is a distinct relationship between trade in counterfeits and levels of development of a nation (Fink and Maskus 2005).

Developed nations of Europe and America are largely free from counterfeits. Counterfeits are now largely a developing country problem, and in Kenya it is a big challenge to manufacturers whose products are being copied, particularly because they are sold at lower prices than the original products. In a country where the majority live on less than a dollar a day, they obviously opt to purchase the cheaper counterfeit product, irrespective of the dangers that it may pose (Carratu 2003).

The largest bulk of counterfeit products sold in Kenya are manufactured and shipped from Asia and parts of Europe and the Middle East. The main reasons for the rise in the importation of counterfeits is liberalization and poverty (Fink and Markus 2005). Importation of cheap and substandard goods in the country has immensely eaten into the market share of local manufacturers, causing the collapse of some of the manufacturing companies in Kenya. Manufacturing companies are losing billions of shillings to counterfeiters in direct sales, erosion of brand equity and reduction of jobs for Kenyans as manufacturing companies have had to down size. This trade in counterfeits has cost the government over one billion shillings per year in taxes as the importers of counterfeit goods usually evade tax (Kwama 2007).

Manufacturers spend colossal sums of money in advertising in a bid to market their goods. An unfair trade practice through the intrusion of one's hard earned market zones is the greatest impediment to a manufacturer's sales. For a manufacturer this translates into reduced sales either through scaling down operations or closing down the manufacturing firm altogether (Kwama 2007).

Manufacturers have faced various challenges dealing with counterfeits, from very weak legal structures, lack of enforcement mechanisms on the part of the relevant government agencies to seize counterfeit goods, very weak penalties for traders in counterfeits, which do not act as a disincentive for them to stop trading in counterfeit products, to lack of will from the government, to curb the trade in counterfeits, among various other challenges.

Many Manufacturing firms and the Government have taken some action to curb the counterfeit menace. A Counterfeit Committee was set up in June 2001 by the Minister of Trade and Industry and constituted representatives of the Manufacturing firms and various governmental bodies including the Kenya Revenue Authority, Kenya Bureau of Standards, Attorney General's Chambers, Kenya Industrial Property Institute, Department of Weights and Measures, Kenya Police and the Kenya Association of Manufacturers. This committee's mandate was to find ways to curb the influx of counterfeits into Kenya (Anti-Counterfeit Bill 2005).

Due to a strong lobby by the manufacturers through their umbrella body, Kenya Association of Manufacturers, they have made some headway against some of these challenges for example the drawing up of the Anti-Counterfeiting Bill, to tougher enforcement measures by bodies like Kenya Bureau of Standards and the Kenya Revenue Authority and creating awareness to the consumers about the dangers of counterfeit products. The fight against counterfeits has been long and arduous (Kwayera 2003).

Although some action is being taken against counterfeits, it is not enough, as Manufacturers continue to battle with this menace particularly because the counterfeiters are becoming smarter and copying original products more closely making it increasingly difficult for the consumer to differentiate between the original and counterfeit product, thus making it difficult to eradicate the trade in counterfeits.

1.1.3 Counterfeits in East Africa

The influx of counterfeit goods into East Africa has continued to rise to unprecedented levels. It is now estimated that counterfeits have continued to increase the cost of doing business and now a total of Kenya Shillings 35 billion is lost annually by the East African countries in counterfeit goods. Counterfeit products within East Africa have spread across most business segments: dry cell batteries, medicines, hand tools, electrical items, toothpaste, shoe polish, food products, car parts, clothes, music, among many others. While some items have been produced in the region, most find their way into the East

African market from China or directly or through the ports of Dubai and Pakistan (KAM 2003).

The problem of counterfeit goods goes beyond the manufacture, distribution and sale of unauthorized or untaxed goods. This trade actually endangers consumers' health and safety and erodes consumer confidence in legitimately produced goods in the region. Despite these dangers, we have seen over 50% of some products lines in the region being counterfeit.

The battle against counterfeits in East Africa is currently a private sector battle, with companies in the region employing their own investigators and anti-counterfeit teams to gather intelligence and root out the source and trade in counterfeit goods. Raids of counterfeit storage facilities and shops are mostly conducted at the encouragement and insistence of the private sector (KAM 2003).

This dangerous trade continues and grows largely unabated as the governments in the region either do not have the legal mechanisms in place to halt the trade, or are indifferent to the trade. Kenya does have laws and both trade and possession of counterfeit goods is considered a criminal offence. In addition, Kenya has tightened its port and the newly introduced inspection guidelines have helped slow the inflow of counterfeit goods.

However, as Kenya has tightened its ports of entry for counterfeit goods, Tanzania's seem to have become more porous as we have seen an increase in counterfeit goods transiting the border from Tanzania to Uganda and into Kenya. In addition both Tanzania and Uganda consider the trade in counterfeit to be a civil offence and normally attach only a small fine to those found trading in counterfeit goods.

Tanzania has recently improved legislation to deal with counterfeits and Kenya is drafting Anti-counterfeit legislation to improve their position even further. Uganda has a few legal means to protect intellectual property owners, however the enforcement of

these laws comes back to political will to enforce. This has been lacking in all the East African countries mainly because the majority of these counterfeit products are brought into these countries by persons who are politically correct (Anti-Counterfeit Bill 2005).

1.1.4 Haco Industries Kenya Limited

Haco Industries Kenya Limited is a Manufacturing firm that was incorporated as a limited liability company in Kenya in 1974. It was a joint venture between Kenyan investors and a Dutch company to manufacture and distribute Bic biro pens. Over the years, Haco Industries Kenya Limited has grown and expanded into the manufacture of other products including cleaning, hair care and cosmetic products all manufactured under license from various Multinational Companies. For example it manufactures Bic bios under license from Bic S.A a French company which owns the Bic brand. It manufactures the Jeyes Cleaning range of products under license from Jeyes Pl.C a British Company and it manufactures the TCB hair care range under license from Alberto Culver Incorporated a US based company. All the products manufactured by Haco are sold in Kenya and the entire East African Region. Haco Industries Kenya Limited also sells some products which it does not manufacture, for example the Palmers skin care lotions and Mutions range of hair care products (www.haco.co.ke).

Its flagship product the Bic biro is used in every facet and segment of our society, including schools, institutions of higher learning, private sector firms, the government, hotels, to name but a few. Over the years Haco has grown as a firm mainly due to the sales of the Bic brand, however in recent years, this growth has continued to dwindle as sales are negatively affected by the influx of counterfeit pens sold at much lower cost.

Haco Industries Kenya Limited manufactures its products at its factory at Kasarani in Nairobi. These products together with the ones it distributes for foreign companies are sold all over the region through distributors. Haco has distributors in Kenya, Uganda, Tanzania and Ethiopia who sell the products on behalf of Haco. Haco also sells Bic biro pens directly to various government ministries in Kenya. This is because the government

prefers to procure directly from Haco Industries Kenya Limited, as the manufacturer and distributor, rather than go through middle men.

Since the liberalization of the economy in the 1990's Haco Industries Kenya Limited has suffered unfair competition from cheap substitutes and sub-standard products. However in the past five years the major challenge has been from counterfeit goods, particularly of the Bic pen which is the flagship product for the company. There have been various types of counterfeit pens, that completely copy the get up of the Bic biro and then give themselves such names as BIG, BELFA and even SCHICK. These pens are imported mainly from the Far East and particularly from China. They find their way to the East African market without paying duties at the ports of entry and then retail at prices lower than the original Bic pen which is manufactured by Haco Industries Kenya Limited. Haco Industries Kenya Limited has lost sales of over Kshs 100,000,000/= per year to counterfeits and suffered a set back in its brand image as these counterfeits are substandard and when consumers buy them they believe that they are buying a Bic biro.

1.2 Problem Statement

The liberalization of the economy in the 1990's, opened floodgates for unscrupulous businessmen to import cheap substandard and counterfeit products. The import licensing regime was abolished leading to a proliferation of cheap imports in a wide variety of products like food items, textiles, beverages and vehicles, while giving consumers a wider range and better choice of goods, the situation has created an unfair competition for local industries. The recovery of Kenya's economy is at a cross-road with manufacturing companies collapsing due to unfair competition from counterfeit products.

It is estimated that in the last one year, the manufacturing sector lost over Kshs. 20 billion in direct sales and treasury over Kshs. 1.3 billion in taxes. The Kenya Association of Manufacturers (KAM 2003) has persistently voiced concern on the negative impact of counterfeit products, and called for effective measures to be put in place to create a level playing field for investors. They come in various forms, ranging from unlicensed use of

trademarks, copyrighted designs and stolen packages, to products that evade taxation and substandard products.

Even with the tax breaks given by the government and rainfall and electricity supply stabilizing the manufacturing sector is expected to remain depressed due to huge capacity under- utilization caused by counterfeits and import dumping. According to industrialist, Chris Kirubi, the counterfeit crisis may spark another round of job cuts as manufacturers come to terms with harsh business environment (Kwayera 2003). Unlike trading activities, manufacturing involves adding value to products at different stages, creating employment and more activities; this in turn creates growth in income for the people, earns Kenya foreign exchange through exports and increases revenue collection for the government. It is well recognized that a certain amount of liberalization is necessary and inevitable for the manufacturers to be more competitive, locally and abroad. But such a situation demands that a level playing field is created for all stakeholders. The increase in the numbers of substandard and counterfeit products in the Kenyan market continues to lead to decreased demand for locally produced goods and consequently to a steady decline in industrial production levels, this has led to closure of several industries. A review of the effects of liberalization on the manufacturing sector reveals, a trail of closure of industries, being put under receivership and low capacity utilization of others. This has in turn created employment losses, investment losses or shrinking, loss of income and revenues and loss of industrial capabilities (Kilonzo 2003). Haco Industries Kenya Limited has continued to be relentless in its fight against counterfeits, however if drastic measures are not taken by the governments of the East African countries to deal with the problem of counterfeit products, it could detrimentally affect this company that creates many jobs and adds value to products, as a manufacturer.

Unprincipled competition in terms of sales of untaxed products in the domestic market has undermined the market shares of most firms. Consignment of imported contra brand 'Bic' ball point pens worth Kshs. 60 million was seized by the Kenya Revenue Authority; genuine Bic products are locally manufactured or supplied by Haco Industries Kenya Limited (Kwama 2007). Kenya is a signatory of World Trade Agreements and the

Government needs to set up standards and conformity systems to protect consumers from sub-standard goods. This closely ties with protecting the Exchequer from tax evasion and local industries from trade malpractice's and unfair competition to increase efficiency of production. (Njagi 2007).

In its fight against counterfeit products, local industries have come up with several proposals on how to deal with this vice which has eaten into the Kenyan fabric. A counterfeit committee was set up in June 2001 by the Trade and Industry Minister and constituted representatives of the private sector and various government bodies. KAM in its fight against counterfeits has at come up with at least, seven proposed amendments to the existing law, that it wants passed immediately to arrest the wide spread practice. The manufacturers have called on the government to raise fines imposed against the culprits from the current Kshs. 20,000/- fee to Kshs. 500,000/- and also introduce stiffer penalties and rights to seize and destroy such goods

Studies have been carried out on firm responses in responses of plastic bag manufacturers and key supermarkets to threats posed by plastic bag disposal. (Wanderi W.J 2005), responses of mortgage companies in Kenya to threats of new entrants. (Omondi 2004), responses to changes in the external environment in the service industry, a case study of the Teacher's Service Commission, (Mulema 2003) and responses to threats posed by increased competition due to liberalization (Njau 2000). None of these studies have specifically targeted the aspect of the effects of counterfeits, hence an existing gap. It would therefore be important to conduct a study to determine the challenge and how the response to counterfeit products faced by Haco Industries Kenya Limited in the three East African countries.

1.3 The Research Objective

The objective of this study was:

- i. To determine the response strategies of Haco Industries Kenya Limited to the challenge of counterfeit products.

1.4 Importance of the Study

This study is expected to benefit manufacturing firms who are currently experiencing reduced sales and profitability as a result of counterfeit products. It is expected to establish the responses both strategic and operational of the big manufacturing firms on the threat posed by counterfeit products, to their businesses. It is also expected to generate interest in the academic circles leading to further research in this area, as it is not a very widely researched area in this country. The research will encourage policy makers to come up with policies that can be adapted in curbing the menace of counterfeit products.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategy

The origin of the concept of strategy is said to be from a Greek word "stratego" meaning to plan the destruction of ones enemies through the effective use of resources (Mulema 2003). The concept was developed purely on the basis of war. This concept remained a military one until the nineteenth century when it began to be employed to the business world. Some scholars think however that the time when the term began to be employed to business is untraceable (Mulema 2003). There is no single accepted definition of strategy, however there are several definitions from different authors that capture the meaning of the concept of strategy.

"Strategy" has been used in business to describe a variety of "planning" and "mental modeling" activities with a generally agreed upon "purpose of charting a successful course of action for a firm or organization over an extended time frame (Johnson and Scholes 2002). The concept of "strategy" can be viewed from many angles but if we 'boil' the concept down to its essence, we can gain the clearest insight on how thinking strategically can benefit our business. (Sidorowicz 2000)

A few of the traditional views include, strategy as a coherent and unifying pattern for decision making, a blueprint of whole organization defining an explicit road map for the future. Strategy as a means of defining purpose in terms of long range objectives, actions programs and priorities for resource allocation, aligning short term action and resource deployment to be congruent with longer term objectives or strategy as a means of defining a firm's competitive domain including defining the business, segmentation and positioning and how and where it is going to compete (Porter 1999).

Strategy is a response to external opportunities and threats, and to internal strengths and weaknesses, to achieve a long term sustainable competitive advantage; a viable match

between internal capabilities and the external environment; and adapting to meet the demands of a changing environment (Pierce and Robinson 1997).

These are all nice and relatively complete as a set, and potentially useful as a framework for the traditional "strategic planning" exercise. But the exercise of strategic planning rarely captures the essence of what it means to think strategically. Many organizations that have been more involved in strategic planning than ever are failing to improve their competitiveness in spite of the investment of time and effort in such an exercise (Sidorowicz 2000).

Why do some companies thrive in tough and competitive times while others languish in mediocrity or fail? And how many companies with a carefully crafted and beautifully presented strategic plan have completely "missed the boat" with some new technology or new competitor or have gone bankrupt? One would think that the application of strategic planning methodologies would have resulted in improved competitiveness and profits.

It may well be that the typical strategic planning exercise now conducted on a regular and formal basis and infused with the mass of quantitative data misses the essence of the concept of strategy and what is involved in thinking strategically. Most strategic planning systems appear to be extrapolations of historical numbers. (Lamb, Robert, Boyden 1984)

What is really at the heart of the matter in terms of the concept of strategy? Let's try to peel away the business academic interpretations and get at the root of thinking strategically (Ohmae 1982).

Thinking strategically implies planning and maneuvering to a goal and perhaps to a set of goals over a varied time frame to some ultimate purpose. Thinking strategically therefore has the end in view today - a sense of the ultimate fulfillment of the purpose or mission. Strategic thinking also implies out-thinking, out-planning and out-maneuvering other forces or competitors. The notion of combat implies a central premise of competition in

the pursuit of 'fulfillment'. The end therefore takes on the sense of triumph or victory (Hamel and Prahalad 1989).

Also central to the concept of strategy and strategic thinking is planning and calculating, i.e. strategizing. The role of a leader embodying the essential elements of strategic thinking is well described in the following passage (Rick Sidorowicz 2000).

"A general must see alone, meaning that he must see what others do not see and know what others do not know. Seeing what others do not see is called brilliance, knowing what others do not know is called genius. Brilliant geniuses win first, meaning that they defend in such a way as to be unassailable and attack in such a way as to be irresistible".

We can therefore boil strategy down to a few basics, and simplify strategic thinking as – how CEO's out-think their competitors to win. By using the ingredients of strategy we have seen which are clear goals, understanding the competitive environment, resource appraisal and effective implementation (Porter 1999).

2.2 Environment and Organisations

An organizations mission is best achieved through systematic and comprehensive assessment of both its external and internal environment. A host of factors influence a firm's choice of direction and ultimately its organizational structure and internal processes. These factors which constitute the external environment can be divided into remote external environment and internal environment. The external environment consists of macro environment, industry environment and operating environment. These factors form the basis of the opportunities and threats that a firm faces in its competitive environment. While the internal environment consists of identifying the strengths and weaknesses in a firm's resources and operations (Cohen and Lee 1985).

(Picrce and Robinson 1997) state that the macro environment comprises of factors that originate beyond and usually irrespective of any firm's operating situation. This

technological advances and the probable future advances that affect their products and services (technological forecasting). This technological forecasting can help protect and improve the profitability of firms in growing industries and alerts managers to both impending challenges and promising opportunities.

2.3 Organizational Responses

Organizations are environment dependant. No organization can exist without the environment (Ansoff 1984). They depend on the environment for their survival and they scan the environment to identify budding trends and conditions that could eventually affect the industry (Thompson & Stickland 1993). Failure to do this will lead to serious strategic problems characterized by the maladjustments of organizations output and the demands of the external environment (Ansoff and McDonnell 1997).

Responses of any organization can be both strategic and operational. The link between overall strategy and operational aspects of an organization is important because if the operational aspects of the organization are not in line with strategy then no matter how well considered the strategy will not succeed.

The bulk of managerial time in business firms is devoted to coping with uncertainties induced by the environment. These increasing number of changes pose major threats or opportunities to a firm including obsolescence of the firms technology, major loss of market share, drastic increase in the cost of doing business, a chance to get a major jump on competitors or a ground floor entry into a new industry (Ansoff 1984).

(Ansoff and McDonnell 1997) assert that if for whatever reasons the firm fails to respond to a threat, the losses caused by it will continue to accumulate. But sooner or later most firms have to take countermeasures to stop the losses. For example if lost sales are irreplaceable, the solution is to stop the product line and to eliminate costs which no longer generate income. If more positive options are available the solution is to develop new products which will use the capacities and capabilities made idle by the threat. A

more difficult response is to divest from the obsolete part of the operation while at the same time replacing the lost profit with totally new activities.

(Ansoff and McDonnell 1997) recommend that the preferable alternative though not always available is to convert the threat, into an opportunity. To devise a response which not only replaces but enhances profits and sales. For most firms responses to a threat do not occur until the threat has become a reality and the loss substantial.

2.4 Strategic Responses

Strategic responses can be said to be matching the activities of an organization to the environment in which it operates. Strategic responses affect the long term direction of an organization and require large amounts of resources. The choice of response depends on the speed with which a particular threat or opportunity develops in an environment (Ansoff and McDonnell 1990). Strategic responses are aimed at achieving advantage for the organization and as such are concerned with the scope of the entire organizations activities.

Strategic responses require that strategy formulation, implementation and evaluation occur at the corporate, divisional and strategic business units of an organization. Strategic management therefore depicts the link between the organization and its environment as well as its internal functions and capabilities (Thompson and Strickland 2003). Strategic response calls for organizations to change their strategy to match the environment and also to transform or redesign their internal capability to match this strategy. In an organization if the environment shifts and there is no strategic response to match the organizations strategy to the environment a gap will be created. Organizations must therefore adapt new strategies to new environments.

One of the strategic responses a company can adapt is Policy Changes. (Pierce and Robinson 1997) define policies as directives designed to guide the decisions and actions of Managers in implementing a firm's strategy. Policies communicate guidelines to decisions and are designed to control these decisions while defining allowable discretion within which operations personnel can execute business activities. Corporate policies will be implemented with regard to the political and legal policies that govern the country. A company cannot implement policies that do not conform with the political, legal and regulatory framework of the country as this will be illegal.

Product Development is another strategic response and involves product evaluation, design, development, manufacturing, marketing and distribution. Many companies have found it necessary to direct research and development resources into the production of products which comply with the current consumer trends. Organizations must develop products that are acceptable to the consumer, but which are also of good quality and are cost effective. This however creates a big challenge for manufacturers in developing countries where the cost of production is very high mainly because of inefficient infrastructure and operating environment. However manufacturers must adapt strategies to manufacture competitive products, or else be wiped out by cheap imports from various parts of the world (Skinner 1985).

Systems and Processes is yet another strategic response. Changes in the organizations systems and processes need to be made which provide competence and capability for dealing with environmental changes (Ansoff and McDonnell 1990). These systems and processes refers to a set of relatively unchanging elements within an organization which include fixed assets, machinery and equipment, information systems, management structures, codes of conduct for personnel and work ethic.

2.5 Operational Responses

The nature and tasks undertaken by the operating core of the organization has an important influence on the various aspects of the organizational design and control.

Operations are the core function of the organization and continuously manages the flow of resources through it. In many organizations operational activities involve the majority of employees within the organization. Operational tasks are concerned with the transformation process which takes input and converts them into outputs together with the various support functions closely associated with the basic task.

One of the major operational responses is Marketing and Distribution. The role of the marketing function is to achieve the organizations objectives by bringing about profitable sale of its products to target markets. Whereas distribution involves methods the organization will adopt to avail its products to the market or trade. Marketing and distribution strategies must be well co-ordinated for the firm to provide its goods and services to the market place in a competitively superior manner and at a profit. It is important to bear in mind that this is one area that can consume a lot of the organizations resources, so cost control is essential when considering the marketing and distribution strategy without compromising on the quality of the services required to get the organizations products to the market (Kotler 2003).

Accounting and Finance is another important operational response. This function directs the use of financial resources in support of the business strategy, long term goals and annual objectives of the organization. If an organization has substantial external threats to its business, it utilizes additional resources to stop that threat and the finance operation supports this through financing. However these additional financial resources need to be budgeted for or else the company may end up spending more than it intended to (Glautier and Underdown 2001)

Production can be an operational response. Production is the core function of a manufacturing organization. It is the function that converts inputs into value enhanced output. Production must guide several decisions regarding the basic nature of the business seeking an optimum balance between investment input and production output, location, facilities design and process planning. Such processes include changes in the process to respond to the environment (Skinner 1999).

Human Resources is another form of operational response that a firm can adapt. A firm's ability to attract and hold capable employees is essential to its success. However a firm's personnel recruitment and selection alternatives often are influenced by the nature of its operating environment. A firm's access to needed personnel is affected primarily by the firm's reputation as an employer. A firm's reputation within its operating environment is a major element of its ability to satisfy its personnel needs. A firm is more likely to attract and retain valuable employees if it is seen as permanent in the community, competitive in its compensation package, is concerned with the welfare of its employees and if it is respected for its products or services.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains the research design, the population of the study, sample and sampling design, data collection method, and data analysis method used in the study.

3.2 Research Design

This was a descriptive case study intended to establish the response strategies of Haco Industries Kenya Limited to the challenge of counterfeit products in East Africa. The case study will enable the researcher to establish the response strategies adapted by Haco Industries Kenya Limited to the threat caused by counterfeit products. The study only covers Haco Industries Kenya Limited and not any other company.

3.3 Data Collection

Data collection was by use of an interview guide embodying closed-ended and open ended questions. The questionnaire was emailed to the respondents who included various levels of Managers of Haco Industries Kenya Limited who have encountered the challenges faced by the threat of counterfeit products in the course of their duties. These included the Managing Director, The Production Director, the Technical Director, the Sales Managers for Kenya, and the Sales Manager for the Export Markets, the Human Resources Director, Marketing Manager Bic and the Anti-Counterfeiting Officer.

The interview guide was designed to address the objective of the study, which was to determine the response strategies of Haco Industries Kenya Limited to the challenges of counterfeit products in East Africa.

3.4 Data Analysis Methods

The collected data was edited for accuracy, uniformity, consistency and completeness.

Analysis was by way of content analysis focusing on the objective of the study which was to determine the response strategies of Haco Industries Kenya Limited to the challenge of counterfeit products in East Africa. Analysis was made firstly on general information regarding the Managers being interviewed to determine their knowledge and understanding of counterfeit products and in what ways counterfeits had affected the company. Analysis was then made on the response strategies that Haco Industries Kenya Limited had made particularly operational and strategic responses, to the challenge posed by counterfeit products in East Africa

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents analysis and findings of the study. The general information on how to identify counterfeit products and how they have affected Haco Industries Kenya Limited is presented first then the strategic and operational responses of Haco Industries Kenya Limited, towards the challenges faced by these counterfeit products.

4.2 General Information

The first part of the questionnaire sought to find out the general information on the issue of counterfeits. Such information was on the nature of counterfeits and how they have affected Haco Industries Kenya Limited.

Eight Managers of various levels of Haco Industries Kenya Limited were interviewed, they included the Managing Director, the Production Director, the Technical Director, the Marketing Manager/Bic, The Exports Director, the Sales Manager Kenya, the Export Manager for Uganda, Rwanda, Burundi and DRC and the Anti-Counterfeiting Officer. Most of these Managers had been with the company for over five years so they had a substantial understanding of the organizations vision and the challenges that the organization had faced due to the threat posed by counterfeit products.

Data collected showed that counterfeit products are a big problem for Haco Industries Kenya Limited affecting the company negatively in various ways including loss of sales revenue, erosion of trademark reputation, loss of market segment and increase in consumer complaints especially because the counterfeits are usually mistaken for the original products manufactured by the company

4.3 Responses

The second part of the guided interview sought to find out how Haco Industries Kenya Limited had responded to the counterfeits menace both operationally and strategically.

4.3.1 Strategic Responses

The first strategic response was sighted as product development changes. In order to counter the effects of counterfeits it was noted that Haco Industries Kenya Limited had to make adjustments to the Bic Cristal pen in order to differentiate it from the counterfeits. These changes included the changing of the support of the pen from the normal gold support to the coloured supports that match the colour of the ink of the pen, the barrel of the pens has also been tinted to ensure that it was distinctly different from the former barrel that had clear barrels and that had been counterfeited. Finally the packaging design of the box of the Bic Cristal was changed to ensure that the look of the packaging is different from that of the counterfeits.

The second strategic response has been the lobbying of government agencies including the Kenya Revenue Authority, the Kenya Bureau of Standards and the Kenya Ports Authority to ensure that they institute policies that would make it difficult for counterfeits to be imported and sold in the country. Through the Kenya Ports Authority, the authorities have been able to inspect any consignment of Bic pens being imported into the country and through the Kenya Revenue Authority and Kenya Bureau of Standards, Haco Industries Kenya Limited has been able to stop certain importers of counterfeit products and deal with rogue traders who trade in counterfeits and consequently deny the government revenue through dealing in counterfeit pens. Through the Kenya Association of Manufacturers, Haco Industries Kenya Limited has championed the lobbying and enactment of the Anti-counterfeiting Bill which is now awaiting Presidential assent. Haco Industries Kenya Limited chairs the Kenya Association of Manufacturers Anti-Counterfeiting Committee. Haco Industries Kenya Limited has also worked closely with the Tanzania and Uganda Revenue Authorities to seize counterfeit products.

The third strategic response has been a combination of surveillance of the Standards of pens by working with the Kenya Bureau of Standards to test on standards. Usually the counterfeit pens do not meet the required standards for pens set by the Kenya Bureau of Standards. Haco Industries Kenya Limited has also taken legal action in both criminal and civil courts for trademark infringement against traders found trading in counterfeit products, in Kenya, Uganda and Tanzania.

The fourth strategic response has been to partner with the Licensor, Societe Bic to conduct consumer awareness campaigns. This has however to be done very carefully so that the brand image of the pen is not destroyed by focusing too much on the issue of counterfeits. A balance has to be found and it has focused on defining the main ways to differentiate between the original Bic Cristal and the counterfeit.

4.3.2 Operational Responses

The first operational response has been product processing changes where Haco Industries Kenya Limited has invested in a date coding machine that now date codes the Bic Cristal box on the outside. This is effectively a change from the former coding which was done on the inner flap of the box.

The second operational response is in Human Resources where Haco Industries Kenya Limited has had to employ a full time Anti-Counterfeiting Officer who patrols the border towns of Kenya to try and identify and arrest rogue traders who bring in counterfeit products into the country through these borders. This Officer works with the Police and they carry out raids and arrest any trader found in possession of counterfeit products.

Thirdly, Haco Industries Kenya Limited has had to make changes in marketing and distribution systems particularly in the export market of Ethiopia, Tanzania and Uganda. Haco Industries Kenya Limited has been forced to withdraw the country managers based in these countries due to the fact that they have lost such large volumes of sales due to the

impact of counterfeits that the company can no longer afford to pay the salaries and benefits of these managers. It now works only with distributors in these countries. The Export Director visits these countries from time to time to ensure that the distributors are meeting their targets in selling Haco Industries Kenya Limited's products.

Fourthly, in terms of accounts and financial changes, Haco Industries Kenya Limited has had to change its strategy in pricing, it now has to engage in annual negotiations with the Licensor, Societe Bic, under whose License the company manufactures the Bic pen, these negotiations have to include getting discounts on specific components of the pens so that the company can maintain the price of the Bic Cristal at a "psychologically accepted price point" of all Bic pens in the territory in which Haco Industries Kenya Limited sells the pens. This is particularly important because the counterfeit Bic pens now retail at the same prices as the original Bic Cristal manufactured by Haco Industries Kenya Limited, yet they do not incur the manufacturing costs that Haco Industries Kenya Limited does. The counterfeiters have become bolder, increasing their prices to retail at the same price as the original Bic biro.

These responses have gone a long way in curbing the challenge of counterfeit products. It should be noted however, that Haco Industries Kenya Limited has to remain very vigilant of the market, particularly because the counterfeiters are very innovative and are always two steps ahead in making changes to the counterfeits to enable them resemble the original closely.

CHAPTER FIVE: CONCLUSION

5.1 Introduction

This is the final chapter of the study. It represents a summary, discussions and conclusions of the study. It also covers the limitations of the study, recommendations for policy and practice and recommendations for further research.

5.2 Summary, Discussions and Conclusions

The summary and conclusions in this section are guided by the objective of the study which was to determine the response strategies of Haco Industries Kenya Limited to the challenge posed by counterfeit products in East Africa. From the findings the company has responded both strategically and operationally. Strategic responses being long term embrace the organization as a whole while operational responses are departmental activities. The two are interrelated and there has to be harmony between the two.

The first strategic response was identified from the study is product development changes where the company has had to differentiate the Bic Cristal from counterfeits by changing production. The company has had to change the production development of the product to differentiate it from the counterfeits.

The second strategic response has been lobbying with government agencies such as Kenya Revenue Authority, Kenya Bureau of Standards and Kenya Ports Authority to ensure that they institute policies that make it difficult for counterfeit products to be imported into the country. This lobbying is still ongoing through the Kenya Association of Manufacturers which has worked tirelessly with manufacturers and legislators to enact an anti-counterfeit legislation that has been enacted and is waiting Presidential assent.

The third strategic response has been a combination of surveillance of the standards of pens by working with the Kenya Bureau of Standards to test on standards. Usually the

counterfeit pens do not meet the required standards for pens. And taking legal action in both criminal and civil courts for trademark infringement against traders found trading in counterfeit products.

A fourth strategic response cited is consumer awareness of the differences between the original Bic Cristal and counterfeits. This is however a challenge because you have to find a balance between making the consumer aware of counterfeits and eroding the brand value due to the over-emphasis on counterfeits.

One of the operational responses cited was through production process changes where Haco Industries Kenya Limited has had to invest in a date coding machine that date codes the Bic Cristal box on the outside.

Secondly, the human resource management function was also cited as a response, as it became necessary for Haco Industries Kenya Limited to employ a full time Anti-Counterfeiting Officer to monitor the market and borders for counterfeit products.

Thirdly there have been changes in marketing and distribution in the export markets as Haco Industries Kenya Limited has had to recall all its Country Managers due to reduced sales, therefore not being able to afford their salaries and benefits. It has now appointed independent distributors in these countries.

Fourthly in accounting and finance, Haco Industries Kenya Limited has had to negotiate for price discounts for its raw materials from its Licensor, Societe Bic to enable it maintain a lower price in order to compete with the counterfeits.

Previous studies have been done on strategic and operational responses and brought out similar and differing responses depending on the nature of the study. Below is a summary of some of the responses and how they compare to this study.

Kombo (1997) found that as a result of the ongoing economic reforms, then, firms in the motor industry adjusted their variables substantially so as to survive in a competitive environment. The firms in the industry introduced new technologies of product development, differentiated their products, segmented and targeted their customers more and improved customer service.

Chepkwony (200) found that firms operating in the oil industry laid more emphasis on strategic planning, many of these firms redesigned their organizational structure in a bid to making the organizations more efficient. They also adjusted their product strategies so as to improve the quality of their products to meet the ever changing needs of the consumer. In this study, aspects of the product had to be changed to differentiate the firm's products, from the counterfeits.

Mulema (2003) studied the responses to changes in the external environment in the service industry. The study focused on the Teacher's Service Commission and found that the organization adapted several operational responses which included managing capacity. On introduction of free primary education, a survey was carried out to assess the need of teachers in public schools across the country and as a result hired new teachers and constructed extra facilities. Managing capacity is an operational response that has been adapted by Ilaco Industries Kenya Limited particularly due to the fact that it had to down size its staff in the export markets due to the impact of counterfeit products.

Nkirote (2004) on a study of the environmental challenges and responses in the mortgage industry in Kenya found that most firms have adapted a marketing concept. They are using all available channels including market intelligence and research to establish market needs and wants in order to tailor products to suit the customers. This means that the firms focus has changed from operations to customer focus. Similarly the study also found that human resource capabilities are a key factor on coping with change and driving the business firm to successful results.

Wanderi (2005) in a study on the response of plastic bag manufacturers and key supermarkets in Kenya to the threats posed by plastic bag disposal, found that strategic responses including policy changes and product development are crucial to the success of firms in their response to threats from the external environment. This is similar to this study that has found that policy changes from the government and product development are key strategic responses to threats from the external environment.

In conclusion it is evident that organizations adapt different responses depending on the nature of the problem. Important to note however is that most of these responses are applicable for different environmental challenges. That is whether the challenge is economic, legal, political or ecological in nature, an organization may adapt similar responses

From the study it is evident that Haco Industries Kenya Limited has responded to the challenges faced by the threat of counterfeit products in East Africa in the various ways discussed in this chapter. Since organizations operate in a dynamic environment, strategic as well as operational responses which are well developed and appropriately adapted are powerful tools to promote an organizations success.

The organization has been both proactive and reactive in its response to the challenges posed by counterfeit products. It has taken a leadership position amongst manufacturers affected by counterfeit products, in the fight against counterfeits and has decided to fight the challenges rather than shut down its manufacturing operations as several manufacturers have had to do in response to the challenges posed by counterfeit products. Going forward, Haco Industries Kenya Limited should get involved more in solutions that would be more proactive in nature for example the enforcement of anti-counterfeit legislation against persons found in the possession of counterfeits, once this legislation is enacted. This will go along way in deterring counterfeiters as the penalties imposed on them under this legislation which is pending Presidential Assent, are very tough

5.3 Limitations of the study

The main limitation of the study was the fact that it is a case study of one company that is experiencing the challenge of counterfeit problems, the research findings cannot be used to make generalizations on the entire manufacturing industry who are facing the challenge of counterfeit products. This is because different manufacturing firms have responded differently to the challenge posed by counterfeit products.

5.4 Recommendations for further research

An interesting area for research would be to look at how companies in other sectors of the manufacturing industry that have survived the threat of counterfeit products have responded to the challenges that they face. Of particular interest would be to study the response of multinational manufacturing countries in Kenya that have the support of their parent companies which usually have more financial muscle and influence than local companies like Haco Industries Kenya Limited. These multinational companies have parent companies that operate in environments that are largely free from counterfeit products and it would be interesting to note whether this influences how they respond to counterfeit products in East Africa.

5.5 Recommendations for policy and practice

In light of the extent of the problem of counterfeit products in developing countries, manufacturers of various products that suffer unfair competition from the counterfeit products must continue to work together through the Kenya Association of Manufacturers to lobby for legislation and policies that will curb this menace. Manufacturing has been identified as an engine for growth of the economy and this cannot be the case if manufacturers are facing serious challenges from having to deal with the serious threat posed by counterfeit products.

The enactment of the Anti-Counterfeiting Bill is a step in the right direction, however, it needs to be enacted into an Act as a matter of urgency and even then its provisions will have to be implemented with commitment if the threat posed by counterfeits is to be curtailed.

In conclusion, this problem has not been studied before, particularly in regard to responses. As a result the findings are more indicative than conclusive and further research is recommended.

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APPENDIX 1: LETTER OF REFERENCE

Date: 9/08/07

TO WHOM IT MAY CONCERN

The bearer of this letter, Brenda Waka, Registration Number D61/P/3307/03 is a Master of Business Administration (MBA) student of the University of Nairobi.

She is required to submit as part of her coursework assessment a research project report on some management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would therefore appreciate it if you could assist her to collect data in your organization for the research.

The results of this report will be solely for academic purposes and a copy of the same will be availed to the interviewed organization on request.

Thank you.

J Kariuki

CO-ORDINATOR, MBA PROGRAM

APPENDIX 2: INTERVIEW GUIDE

Part A: General Information

i. Please indicate how long you have been working for Haco Industries

- 1 - 5 years ()
- 6-10 years ()
- Above 11 years ()

ii. Please indicate your position in the Haco management. give the title of your position and the country you are based in?

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iii. Please indicate your gender

- Male ()
- Female ()

iv. Please indicate your terms of employment

- Permanent ()
- Contract ()

v. How much would you rate your understanding and interpretation of your organization's vision statement?

- Substantial ()
- Average ()
- Little ()
- Not at all ()

PART B: Counterfeit Products

vi. Which of the following techniques does your Organization use to identify counterfeit products?

	Yes	No
Unbelievably low prices		
Nature of the retailer		
Blurred Lettering		
Poor Quality Containers		

Tampered Seams and Packages		
Ripped and Poor Quality Labels		
Badly fixed Trade Marks		
Strange Codes		
Reference Numbers		
Warrantees and Claims		
Wrong spelt Words		
Altered Trade Marks		
Sudden Packaging Change with words such as "special edition"		
Use of Foreign Language not Common in East Africa		
Recycled Packages		

vii. Please rate the extent to which the following challenges of counterfeit products has affected your firm. Where 5= To a very large extent, 4= To a large extent 3= To some extent 2= To a small extent and 1= No extent at all

	5	4	3	2	1
Loss of sales revenue					
Erosion of trademark Reputation					
Loss of Market Segments					
Factory closures					
Lay offs and Retrenchments					
Downsizing operations					
Increase in consumer complaints when the counterfeit goods are mistaken for the company's products					

viii. How has Haco responded to the challenges posed by counterfeit products?
a) Strategic Responses, these include policy changes, product development and changes in systems and processes

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