WHY KENYAN SUGAR FIRMS ARE FAILING TO COMPETE EFFECTIVELY WITHIN THE LIBERALIZED TRADING ENVIRONMENT IN KENYA : THE CASE OF GOVERNMENT - OWNED SUGAR FIRMS

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DECLARATION

This project is my original work and has not been submitted for a degree in any other University.

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This project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

For

Pam & Mike

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ABSTRACT

This study was carried out between April and July, 1999. Its focus was on the Kenyan sugar industry in the changing Kenyan business environment.

The study as reported in this project sought to establish why Kenyan sugar firms were finding it increasingly difficult to compete within the changing Kenyan business environment. The specific objectives of the study were: one, to establish the factors undermining the competitiveness of the local sugar firms; two, to find out if the local sugar firms were making any responses in reaction to the changing Kenyan business environment; and three, to identify what company managers, and other stake-holders consider as important measures that need to be undertaken to enhance the competitive level of government-owned sugar firms.

This study which involved all the government-owned sugar firms, namely, Mumias Sugar Company, Nzoia Sugar Company, Miwani Sugar Company, Chemilil Sugar Company, Muhoroni Sugar Company and South Nyanza (SONY) Sugar Company, yielded a number of important findings.

The study found out that Kenyan sugar firms were facing very stiff competition from imported sugar. As such, the local sugar firms are reported to be seriously negatively affected currently. A number of factors thought to be undermining the competitiveness of the local sugar firms, have been identified by this study. This include unfair competition from imported sugar, inferior production facilities, and poor management of company resources, among others.

This study points at a number of strategic measures that the local sugar firms have and/ or are still putting in place in response to the changes currently taking place in the Kenyan business environment. Employee retrenchment, improvement in production efficiency, sub-contracting of services considered to be subsidiary to core functions, and increased marketing activities, are some of the prominently cited strategic measures being undertaken by the local sugar firms in response to the changing Kenyan business environment.

The study further records a number of specific measures, in the view of respondents, that need to be undertaken by the industry stakeholders to ensure the sustained competitiveness of the local sugar firms.

CHAPTER 1

INTRODUCTION

1.1 Background

A number of changes have taken place in the Kenyan business environment during the last four decades. In the period following independence, the government assumed a major direct role in the growth and development of the economy-an interventionist approach towards the management of the economy. At that time, there was scarcity of private domestic savings, management talent and entrepreneurial experience. Thus, direct government participation in commercial and industrial activities was regarded as an effective way to induce development, promote regional balance, attract private investors and also act as an essential step towards the "Kenyanization" of the economy (Sessional Paper No. 1, 1994).

Over the years, the government's role in the economy continued to expand despite the emergence of a growing private sector. In part, growth of the public sector has resulted from increased demands for administrative and social services, arising from the fast growing population. However, in other cases, this expansion was the result of policy objectives, for example; creating employment and increasing the capacity to control the economy.

The last policy objective -increasing the government's capacity to control the economy, arose out of the need for the government to keep at bay the influence of market forces in resource allocation in Kenya . The Kenyan government had an underlying distrust for the allocation of national resources through market forces. As such private sector development was not encouraged.

Further, at the period of independence the government of Kenya pursued protectionist policies towards the management of the economy. Under the guise of protecting infant local industries against foreign competition, the government encouraged investments through high levels of protection.

While the of policy of protectionism works out quite well for many emerging economies, the World Trade Organisation (WTO) (1995) observes that it often leads to bloated and inefficient companies supplying consumers with expensive, outdated and less attractive products. W.T.O. notes further that if other governments pursued protectionist policies, overseas markets will contract leading to reduced world economic activity in the long–run.

Indeed the National Development Plan for the period 1997 – 2001 (Republic of Kenya, 1997) observes that, by mid -1980's, it had become clear that structural constraints had emerged within the Kenyan economy that were preventing it from achieving the high economic growth rates of the 1960s and the early 1970s. Kenya's internal policies and structural rigidities were found to be constraining the nation's economic growth and development. This led the government to adopt Structural Adjustment Programmes (SAPs) through the publication of Sessional Paper No. 1 of 1986 on *Economic Management for Renewed Growth*. In this paper, the government sought to broaden the role of market signals.

In the Sessional Paper No. 1 of 1986 on "Economic Management for Renewed Growth" (Republic of Kenya, 1986), the government specified a number of measures on how to move away from a restrictive, protective, trade regime to a more flexible system. This, by extension, aimed at redefining the government's role in the management of the country's economic affairs. Since 1989, the government has aimed at creating an economy that is less controlled, market oriented and to encourage the private sector to play a pivotal role in the economy.

Specific changes that the government targeted to put in place according to Sessional Paper No. 1 of 1986 included: considerable reduction of the state's role in the management of the country's economy, relaxation of imports restrictions in the form of tariffs and quotas, and removal of price controls on a number of commodities.

The policy framework paper on "Economic Reforms" for the period 1996 -1998 (Feb, 1996) reports that the government has, since mid -1993 made significant strides with respect to structural reforms. It has eliminated foreign exchange controls, removed all trade restrictions, except for a short list of a few products controlled for health, security and environmental reasons. The number of non-zero tariff rates has been reduced from seven to five, and the maximum tariff reduced from 62% in 1993/94 to 40% in 1995/96. All price controls have been abolished.

Further, in the area of domestic market liberalization, the government has undertaken reforms to ease restrictions on business entry and operations while putting in place appropriate safeguards against anti-competitive behavior. This undertaking has been achieved by rationalization and reduction in the number of national and local fees and licences required for new businesses and through minimizing restriction on retail and wholesale trade and investment under various legislations (The Policy Framework Paper, Feb. 1996).

On the whole, the Kenyan government has continued to move away from the interventionist approach to economic management to that of creating an environment supportive of the efficient functioning of the private sector and markets. In effect, the government's role has been reduced to that of macro-economic policy formulation and the provision of an overall policy enabling environment.

The revival of the East African Cooperation is another initiative which promises to dramatically change the business environment in Kenya, through the creation of a Common East African Market.

The Policy Framework Paper on Economic Reforms for 1996 -1998 (Feb. 1996) outlines the Kenyan government's plan to work closely with Uganda and Tanzania, under the framework of the Permanent Tripartite Commission for East African Cooperation towards an eventual goal of an East African Common external tariff and harmonised investment regulations, as well as more active use of regional currencies. This scenario is likely to result into a changed business environment in Kenya as the absence of internal tariffs and quotas automatically translates into additional trade. Further a common market may also permit economies of scale to be tapped where the small size of the national market restricts output below the optimum. The attendant economic integration, too, promises to result into increased competition for supply of goods and services in Kenya.

The foregoing changes have succeeded in creating a free trading environment in Kenya. This free trade regime has in effect opened the gates for entry into the various sectors of business by a number of new players. Competing business organizations have since emerged in virtually all sectors of the economy. The result has been serious challenges for companies or business organizations that have for long enjoyed monopolistic benefits, especially those in the previously protected sectors.

The local sugar industry has not been spared by this eventuality. A number of private investors have emerged since the early 1990s. Particularly significant in this regard are those investors who have taken advantage of the reduced import restrictions to import into the local market sugar from foreign countries. There are also cases of sugar meant for transit being diverted into the local market. Indeed the local sugar industry has had to contend with competition from some of the world's leading exporters of sugar like Brazil, India, Cuba, China, Mexico, Pakistan and South Africa.

The foregoing scenario has created a glut in the local sugar market rendering the local manufacturing firms prostrate. It is important to emphasize here that in a fully liberalized economic environment, it is only the fittest organizations that survive. Rather than succumb to the effects of intense competition from new entrants, existing firms need to adapt to the fast changing economic circumstances.

1.2 The Research Problem

The Kenyan economy has, for the last decade witnessed major changes, following the implementation of policies leading to economic liberalization. These changes include removal of import controls,price and foreign exchange controls among many others. These changes have dictated that firms adjust their structures, designs, manufacturing processes, corporate culture and general posture, in order to remain competitive.

A number of studies have been carried out in Kenya before, addressing the question of the extend to which firms have been affected by the changing business environment and the attendant strategic responses. These studies include Shimba (1993) on financial institutions, Belt (1995) on the dairy industry, Abekah (1996) on the petroleum industry, Kombo (1997) on the motor industry franchise holders, and Chune (1998) on food manufacturing firms in Nairobi.

Available literature indicates that, so far, no study has attempted to address the performance of the Kenyan sugar industry since the process of economic liberalization was initiated in Kenya, yet the industry remains an important sector in the socio-economic development of this country. Sugar-cane contributes 4% towards the marketed agricultural production in Kenya (Livingstone and Ord,1986).This is a significant contribution, considering that agriculture continues to make up the largest portion of Kenya's economy, contributing approximately 25% of the total Gross Domestic Product (G.D.P.) (Economic Survey,1995). Further, the industry employs thousands of Kenyans who work in various sub-sectors.

The performance of the local sugar industry has been dwindling for sometime now. The National Development Plan for the period 1997-2001 by the Kenyan government observes that self-sufficiency in sugar has remained elusive over the years leading to higher levels of imports. As evidenced in appendix I, covering the production of sugar by local firms between the years 1986 and

1995, sugar production increased steadily from 1986 to 1988. After 1988, production levels fell steadily until 1994.Comparing these production patterns against the steadily rising consumption levels (appendix I), one gets a clear impression that the local sugar industry is experiencing problems. A country report by the Economic Intelligence Unit (1st quarter, 1998) observed that there was a reduced sugar content in some of the cane harvested in 1997. The same report reveals that the ministry of agriculture projects a fall in sugar production to 350,000 tones in 1998 from 400,000 tones in 1996 and an estimated 390,000 in 1997.

In virtually all the sugar-cane growing zones of this country, a lot of overgrown cane is going to waste un-harvested. Stand-offs between sugar-cane farmers and management of sugar factories in the country are common and frequent. Revitalization measures have since been suggested and in some cases implemented. Management of Nzoia Sugar Company has since been placed in the hands of an American consultancy firm - F.C. Schaffer and Associates Inc.. The shift in the management of Muhoroni Sugar Company from indigeneous managers to a Pakistani Consultancy firm – Hudabiya Construction Company, has since hit a snag.

On the whole, the local sugar industry is presently very volatile (Economic Survey, 1998).

This study undertook to answer the following questions:

1) What are the major causes of the inability of the local sugar firms to compete effectively within the changing business environment in Kenya?

2) Are there any strategic responses by the local sugar firms to redress the situation?

3) What are the specific measures that need to be undertaken in order to enhance the competitive level of the Kenyan Sugar Firms?

1.3 Objectives of the Study

The principal purpose of this study was to examine the major causes of the inability of the local sugar firms to compete effectively in the face of the changing Kenyan business environment. Further, this study sought to examine whether or not there were any efforts by the local sugar firms to adjust to the changing business circumstances in Kenya.

The following were the specific objectives this study sought to achieve :

1. To identify the major causes of the local sugar firms' inability to compete effectively within the changing Kenyan business environment.
2. To identify the strategic responses by the local sugar firms towards the changing Kenyan business environment.
3. To identify what company managers, and other stake-holders consider as important measures that need to be undertaken to enhance the competitive level of government-owned sugar firms.

1.4 Significance of the study

The findings of this study will be of great significance to the following interest groups:

(i) Policy makers both in the government and corporate organizations who might require to gain insight in both the adverse and positive effects of the economic policy changes currently being undertaken in Kenya,

(ii) Scholars who may wish to know how the local sugar firms are reacting to the changing business environment in Kenya following the implementation of a number of new economic policies, and

(iii) Scholars who may intend to use the findings of the study in teaching and carrying out further research in the same, and / or related fields.

1.5 Operational definitions

Government-Owned Sugar Firms : Strictly speaking, government –owned sugar firms means government controlled sugar firms. These are firms in which the government's share-holding is more than 50 percent. For the purpose of this study however, Miwani sugar company has been included in the companies studied, although the governments share holding in the company is less than 50 percent (it is 49 percent). Miwani Sugar Company was included in the study to make the findings more representative.

1.6 Overview of the Report

This project is divided into five chapters. Chapter 1 provides the background to the study. Chapter 2 provides a brief review of the literature in organizational management and the imperativeness of change management.Chapter 2 also highlights the historical development of the Kenyan sugar industry.

Chapter 3 of this project highlights the methodology the study has chosen to employ towards attaining its objective of finding out why Kenyan sugar firms are finding it increasingly difficult to compete effectively within the changing Kenyan trading environment.

Chapter 4 is devoted to data analysis, while chapter 5 discusses in greater detail findings from the study. Chapter 5 also carries the reseachers recommendations arising from the findings of the study.

CHAPTER 2

LITERATURE REVIEW

2.1 Conceptual Framework

Every organization, whether for-profit or not-for-profit, has an external environment with which it continuously interacts. Kotler (1997) observes that a company's organization consists of its structures, policies and corporate culture, all of which can become seriously dysfunctional in a rapidly changing business environment.

A firm's business environment consists of all elements existing outside the boundary of the organization that have the potential to affect the whole or part of the organization [Daft,1986].

An organization's external environment is always in a continuous state of change.This often results into uncertainties for the organization.

The continuous interaction between an organization and its ever changing external environment often creates both opportunities and threats, for it.

Kotler (1997) observes further that rapid environmental changes can easily render yesterday's winning business solutions and principles obsolete.
The "Open Systems" orientation in organizational management, holds that an organization is always open to its environment. In this sense the internal functioning and operations of every firm affects and is in turn affected by its external environment.

Daft (1986) cites two ways through which the environment may influence an organization:

(i) the need for information, and

(ii) the need for resources.

Daft goes further to observe that organizations need to have the right fit between their internal structures and their external environment in order for them to function effectively and efficiently.

Boseman and Phatak (1989) argue out that if a firm wants to remain vibrant and successful in the long-run, it must make strategic decisions that take into account the impact the external environment, especially such relevant groups as competitors, customers, suppliers, creditors, and government will have on its operations.

Ansoff (1984) conceptualises strategic planning as the process of seeking a better match between a firm's products or technology and its increasingly turbulent markets. Ansoff explains the increased emphasis of this perspective on management for the 1980's and beyond. He observes that during the past twenty years, a major escalation of environmental turbulence has taken place. For a business firm, it has meant a change from a familiar world of marketing and production to an unfamiliar world of technologies, strange competitors, new consumer attitudes, new dimensions of social control, and above all, a questioning of a firm's role in society.

Generally, if an organization has to survive the challenges (threats) posed by a changing environment, it must always anticipate change and be able to manage it.

Cole (1995) observes that some organizations change mainly in response to external circumstances (reactive change), while others change principally because they have decided to change (proactive change).

Cole goes further to observe that some organisations are conservative in outlook, seeking little in the way of change, while others are entrepreneurial in outlook, ever seeking new opportunities and new challenges. Entrepreneurial organisations, observes Cole, are designed with an in-built flexibility, enabling adaptation to take place regularly and relatively easily.

Galbraith (1977) suggests various other ways of managing an external business environment. He observes that an organization can adopt various strategies of competitive response, public response, and voluntary response.

Other strategies for combating threats in the external environment include organizations entering into mergers and /or considering establishing joint ventures. Daft (1986) suggests further strategies for managing the external business environment. These strategies include the creation of responsive positions and departments and creation of boundary spanning functions. Others include encouraging organisational differentiation and integration.

2.2 The Kenyan Business Environment

The Kenyan business environment has been undergoing tremendous changes during the last four decades. These changes have opened up the domestic economy to stiff competition in virtually every sphere.

The Policy Framework Paper on "Economic Reforms" for the period 1996-1998 (Feb 1996) reports that the government has since mid 1993 made significant strides with respect to structural reforms. It has eliminated foreign exchange controls, removed all trade restrictions, and tremendously reduced tariff rates. The number of non-zero tariff rates has been reduced from seven to five, and the maximum tariff reduced from 62% in 1993 / 94 to 40% in 1995 / 96. All price controls have been abolished.

In the area of domestic market liberalization, the government has undertaken reforms to ease restrictions on business entry and operations. This undertaking has been achieved through rationalization and reduction in the number of national and local fees and licences required for new businesses and through minimizing restriction on retail and wholesale trade and investment (Policy Framework Paper, 1996).

Further the revival of the East African Cooperation is another initiative which promises to dramatically change the Kenyan business environment through the creation of a common East African market. A common East African Market, promises to result into additional trade which, by extension is likely to permit economies of scale to be enjoyed by member countries.

The foregoing changes have succeeded in the creation of a free-trading environment in Kenya. This free trade regime has in effect opened the gates for entry into the various sectors of business by a number of new players. Competing business organizations have since emerged in virtually all sectors of the economy. The result has been serious challenges for companies that have for long enjoyed monopolistic benefits especially those in the previously protected sectors.

A number of studies have been done to assess the impact the changing business environment in Kenya has had on a number of organizations. Shimba (1993) observed that liberalization in the financial sector had a profound effect on the functioning of the local financial institutions, necessitating their structural changing. Bett (1995) studied the impact of liberalization on the dairy sector. He observed that liberalization in the sector had led to an unpredictable trading environment. Kombo (1997) on the motor industry franchise-holders, made the observation that liberalization had necessitated structural changes within the motor industry, as economic liberalization had resulted into increased competition. He observed that local vehicle assemblers had faced stiff competition from second-hand vehicle importers.

Chune (1998) in a study on the influence of the changing business environment in Kenya on the behavior of food manufacturers in Nairobi found out that the number of food manufacturers did not steadily increase. He observed that this was due to an influx into the local market of imported food products from other countries as a result of economic liberalization.

All the foregoing studies indicate a relationship between the changing business environment in Kenya and the functioning of local firms.

2.3 The Development of the Kenyan Sugar Industry

Commercial cultivation of sugar-cane was introduced in East Africa by Asians during the first half of the twentieth century (Karuggah and Kubasu, 1993). Uganda was East African's chief producer of sugar-cane. Two large plantations were established at Lugazi and Kakira near Jinja. For a long time, Uganda supplied Kenya and Tanzania with sugar.

Kenya's sugar industry was slow to develop. By 1967, there were only two sugar factories in the country:--Miwani factory in Kisumu district and Ramisi factory in kwale district.

The Ramisi and Miwani sugar estates were established between 1902 and 1940 by Asians. But total output in these two areas was not sufficient for the whole country. Thus, Kenya had for a long time to import sugar from Uganda. Mumias Sugar Company, Kenya's largest cane milling firm was established in 1971 (Oyaya and Ogagul, 1995), while South Nyanza Sugar Company (SONY) was established in 1977.

Presently there are three major sugar-cane growing regions in Kenya. These regions include:-

(i) The Nyanza "sugar-cane belt", which extends from Koru through Muhoroni and Chemelil to Kibos near Kisumu. Sugar-cane is also grown in Kisii and Siaya districts.

(ii) Western province:-Mumias has dominated in sugar-cane cultivation. Some sugar-cane growing is found in Bungoma district around Nzoia and Eastern parts of Busia district. There is also some significant sugar-cane cultivation in the Kabras area of Kakamega district.

(iii) In the Coastal region:-Sugar-cane is grown in the Ramisi area, although sugar production appears to have declined significantly in the recent years.

Sugar factories are dotted in the sugar-cane growing areas. These factories are:- Muhoroni, Chemelil, Miwani and Sony in Nyanza province; Mumias and Nzoia in Western province: and Ramisi in Coast Province. Plans are at an advanced stage to establish another sugar factory at Nambale , Busia district (Oyaya and Ogagul, 1995).

The Kenya Sugar Authority (KSA), a government marketing board, deals with all matters relating to the production and marketing of sugar.

The government's share holding in each of the above sugar firms is as indicated in appendix IV.

There are indications that the liberalised economic environment in Kenya has produced negative effects in some sectors. The freeing of many world trade barriers has resulted into increased global competition for supply of goods and services in Kenya (Levin and Ndung'u, 1996:7).

This competition has seriously affected local firms, particularly those that previously enjoyed protective advantages from the state. The Kenyan sugar industry presents a show case of the adverse repercussions of economic liberalization in Kenya. The local sugar industry has been undergoing depressive moments with overall production levels falling steadily since 1988 (Statistical Abstract, 1996). Most sugar factories are finding it increasingly difficult to operate in a self- sustaining manner given the huge losses they make every year. Some factories like Ramisi, have since closed down.

A number of problems appear to be bedevelling the local sugar firms. These problems are thought to stem from poor company management, government interference in companies' management and poor relation between contracted sugar-cane farmers and companies' managements. Un-regulated importation of sugar from highly subsidized economies is also thought to be affecting the local sugar firms. Indeed the local sugar industry has had to content with competition from some of the world's leading producers and exporters of sugar like India, Brazil China, Mexico, Pakistan and South Africa.

The competition faced by the local sugar firms from imported sugar has largely been viewed as unfair. Industry experts have variously pointed out that importers of sugar from foreign countries have been able to find loopholes in Kenya's customs department which allow them to import sugar into the country without paying the full value of customs and other charges.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Type of Study

This study was a census survey of the descriptive type. It achieved its purpose by collecting and analyzing data from the six government-owned sugar companies in Kenya. Kotler (1997) observes that surveys are best suited for descriptive research.

Since the population of interest consisted of six sugar companies only, a survey using census was justified as this approach to research ensures that data is collected from all the units in the population, thereby enhancing confidence in the findings and conclusions arrived at.

A census study is most appropriate whenever the population of interest is small and the population units markedly different. Parasuraman (1986) observes that a census study is feasible from the standpoint of cost, time and accuracy.

3.2 Population of Interest

The population of interest in this study consisted of six Kenyan sugar firms in which the Kenyan government has a substantial share-holding.These are: Mumias Sugar Company, South Nyanza Sugar Company (SONY), Chemelil

Sugar Company, Muhoroni Sugar Company, Miwani Sugar Company, and Nzoia Sugar Company. The study did not concern itself with the small sugar factories whose impact in the industry is at best, insignificant, and whose history is not consistent.

The companies studied produce white sugar both for local and foreign consumption. They develop and manage their own sugar-cane estates although they have also contracted quite a number of farmers to provide cane for crushing. The Kenyan government holds a substantial shareholding in all of these companies (a part from Miwani Sugar Company (49%)), which gives it a greater say in the overall management of the companies.

3.3 Data Description and Collection

This study used both secondary and primary data.Secondary data was obtained from statistical abstracts, and other government policy documents.

In-house newsletters and brochures from the sugar companies were also used as a source of secondary data. Primary data was collected using a questionnaire which contained both structured and unstructured questions. The questionnaire was administered personally by the researcher using the drop and pick later method. Responses were sought from Company Managers, Officials at the Kenya Sugar Authority and directors of out-grower organizations, as these personalities happen to be at the center of the management of the Kenyan sugar firms.

3.4 Data Analysis Techniques

Data in this study was analyzed using descriptive statistics. Since the study was investigative in nature, proportions, and percentages were used to summarize the collected data.

The 4-point Likert scale was used in the question designed to seek respondents' perception regarding the causes of the inability of the local sugar firms to compete effectively within the changing Kenyan business environment. The Likert scale was chosen as it is known to provide for expression of intensity of feeling (Churchil, 1991), in addition to being simple to construct (Tull and Albaum, 1973). Further, the Likert scale has the advantage of providing the researcher with the opportunity of running a whole battery of items for the respondent to evaluate, yet there is only one uniform set of rating categories that the respondent needs to use (Luck and Rubin,1992).

The statistical package for IBM PC, SPSS/PC+ was used to analyze responses secured from the 4-point Likert scale. Factor analysis,a mathematical model which attempts to explain the correlation between a large set of variables in terms of a small number of underlying factors (Mardia et.al., 1989) was used to analyze the respondents' rating of the possible causes of the local sugar firrms' inability to cope with the changing Kenyan business environment. The analysis was performed on twenty one possible causes.

3.4.1 A note on factor analysis:

Factor analysis is a mathematical model which attempts to explain the correlation between a large set of variables in terms of a small number of underlying factors (Mardia et.al, 1989). It is an attempt to explain a set of data in a smaller number of dimensions than one starts with.

The basic goal of factor analysis, as a tool for data analysis is to generate understanding of the underlying structure of questions, variables or objects and combine them into new factors.

Cooper and Emory (1995) observe that factor analysis has the objective of reducing variables to a more manageable number that belong together and have overlapping measurement characteristics.

Most of the attributes in a study may be redundant since they may be measuring the same thing. Factor analysis, in the words of Luck and Rubin (1992), can therefore be used to eliminate redundant variables from a list of variables a researcher begins with.

Factors X1, X2, X3, X4, X5, X6, X7, X8, X9, X10 may for instance be explaining the behaviour of variable Y.

Factor analysis will explain the correlation between the variables X1, ... , X10 in terms of a few underlying factors say Z1, Z2, Z3 and Z4.

Procedure :

Factor analysis begins by constructing a new set of variables based on the relationships in the correlation matrix. The most frequently used approach is the Principal Components Analysis. Principal Components Analysis transforms a set of variables into a new set of composite variables or principal components that are not correlated with each other. These linear combination of variables, called factors, account for the variance in the data as a whole.

The best combination makes up the first principal component and is the first factor (Z1) . The second principal component (Z2), is defined as the best linear combination of variables for explaining the variance not explained by the first factor.

In turn, there may be a third (Z3), fourth (Z4), and the Kth (Zk) component, each being the best linear combination of variables not accounted for by the previous factors.

The process continues until all the variance in the dependent variable is accounted for, but as a practical matter, it is usually stopped after a small number of factors have been extracted.

In the computer print-out the following terms will feature prominently:

Eigen - Value : Is a measure of the explanatory power of each factor.

Communality : This indicates the amount of variance in each variable that is being explained by each factor.

CHAPTER 4

DATA ANALYSIS AND FINDINGS

This study involved six government – owned sugar firms in Kenya. These included Mumias Sugar Company, South Nyanza Sugar Company, Chemelil Sugar Company, Miwani Sugar Company, Muhoroni Sugar Company and Nzoia Sugar Company.

A total of 20 respondents were interviewed. 12 of the respondents were drawn from the top hierarchy of the sugar companies' management. The rest of the respondents were drawn from the Kenya Sugar Authority. The results have been summarised and presented by the use of tables and proportions. Factor analysis of the various causes of the uncompetitiveness of the local sugar firms is included at the end of this chapter.

4.1 Tabulated Findings

Table 4.1.1 Response on whether companies have been affected negatively or positively

Response	No of respondents	% - ntage
Negatively affected	20	100.00
Positively affected	0	0.00
Total	20	100.00

Source :- Interview with industry officials.

Findings:- Kenyan sugar firms have been negatively affected by the changing Kenyan business environment.

Table 4.1.2 : Government share – holding in each of the six public sugar companies.

Company	**% - ntage share – holding**
(1) Mumias Sugar Company	70.76
(2) Sony Sugar Company	98.80
(3) Chemelil Sugar Company	95.38
(4) Muhoroni Sugar Company	74.17
(5) Nzoia Sugar Company	97.93
(6) Miwani Sugar Company	49.00

Source : Interview with the Kenya Sugar Authority.

Findings: Although the government is a major share-holder in nearly all the above companies, government interference in company management was not cited as a major cause of the local sugar companies uncompetitiveness in the face of the changing Kenyan business environment.

Table 4.1.3 : The extend to which companies have been affected by the changing Kenyan business environment

Response	No. of respondents	% - ntage
Very serious	10	50.00
Seriously affected	10	50.00
Not seriously affected	0	0.00
Total	20	100.00 %

Source :- Interview with industry officials

Findings :- The extend to which government owned sugar companies have been affected ranged between serious and very serious.

Table 4.1.4 Source of greatest competition for government – owned sugar companies

Response	No. of respondents	% - ntage
Inter – Public Company	0	0.00
A local Private Sugar Company	0	0.00
Local Investors who import sugar	20	100.00
Total	20	100.00 %

Source : Interviews

Findings : The greatest source of competition for government owned sugar companies was local investors who import sugar into the Kenyan market.

Table 4.1.5 Whether the government has any role to play within the sugar industry given the liberalized Kenyan trading environment.

Response	No of respondents	% - ntage
The government has a role to play	20	100.00
The government has no role to play	0	0.00
Total	20	100.00%

Source :- Interviews

Finding :- The government still has a very prominent role to play within the liberalized Kenyan trading environment. This includes:

1. Regulatory role within the industry/control of imports.
2. Policy frame-work formulation.

Table 4.1.6 :Whether the Kenya Sugar Authority has any role to play in the local sugar industry given the changing Kenyan trading environment.

Response	No of respondents	% - ntage
KSA still has a role to play	20	100.00
KSA does not have a role to play	0	0.00
Total	20	100.00%

Source :- Interviews with industry officials.

Findings :- K.S.A. still has a Prominent role to play within the local sugar industry. This role includes:

1. Co-ordination of research
2. Regulatory role within the industry.

Table 4.1.7 : Level of competition facing government – owned sugar companies following the changing Kenyan business environment.

Response	No. of respondents	% - ntage
Very stiff	14	70.00
Fairly stiff	6	30.00
Not stiff	0	0.00
Not stiff at all	0	0.00
Total	20	100.00%

Source : Interviews with industry officials

Findings:- 70% of the respondents indicated that the competition facing government-owned sugar firms was very stiff. However this competition was largely unfair.

4.2 Results of Factor Analysis

- - - - - - - - - - F A C T O R   A N A L Y S I S - - - - - - - - - - -

Analysis number 1   Listwise deletion of cases with missing values

Correlation Matrix:

	C1	C10	C11	C12	C13	C14	C15
C1	1.00000						
C10	-.23686	1.00000					
C11	-.11956	-.13569	1.00000				
C12	-.12461	-.20365	.05711	1.00000			
C13	-.14744	-.20080	-.03379	-.21129	1.00000		
C14	-.12388	-.28118	.06624	.11835	.49010	1.00000	
C15	.00000	-.13912	-.27310	.09759	-.28868	.08085	1.00000
C16	.19837	-.15009	.19698	.18951	.33635	.28259	.04315
C17	-.32969	.44901	-.30220	-.47246	.00000	-.15656	.00000
C18	.28780	.22692	-.48942	-.21706	-.28252	-.23736	.14828
C19	-.06821	-.30193	.04299	.53764	.17349	.34822	.16695
C2	.09720	-.05673	-.13682	-.11939	.40025	.27034	.08156
C20	-.24245	-.15009	-.10606	-.06317	-.03737	.07326	.04315
C21	.00000	.08032	-.06757	.33806	-.25000	-.42008	.11547
C3	-.32601	.28254	-.27845	.08494	.20101	.37998	.05803
C4	.23875	.30193	-.66825	-.04888	-.46265	-.34822	.23372
C5	.20724	.06272	-.66485	-.26398	-.03904	.02187	.27050
C6	.11843	.16129	-.73273	-.20365	-.20080	-.16871	.13912
C7	.24922	-.06788	-.05711	.00000	-.21129	.11835	.09759
C8	.06019	.32791	-.05517	-.17252	-.40825	-.34300	.00000
C9	.24730	.04210	-.04959	.08860	-.10483	.42569	-.06052

	C16	C17	C18	C19	C2	C20	C21
C16	1.00000						
C17	.00000	1.00000					
C18	-.15741	.34458	1.00000				
C19	.30690	-.51726	-.68027	1.00000			
C2	.20061	-.15794	-.29751	.47111	1.00000		
C20	-.00559	.41783	.22652	-.12535	-.08095	1.00000	
C21	-.07474	-.11180	.15410	-.05783	-.32962	.07474	1.00000
C3	-.00751	.22473	-.21166	.06394	.26975	-.00751	-.10050
C4	-.30690	.32329	.73968	-.39799	.01906	.29825	.17349
C5	-.15175	.52382	.37704	-.24386	.22797	.31517	-.15617
C6	-.45027	.44901	.43322	-.34839	-.01891	.15009	.08032
C7	.18951	.37796	.30389	-.24438	-.27858	.56853	.00000
C8	-.06103	.45644	.48232	-.66107	-.40370	.09154	.40825
C9	-.05485	-.23440	.17769	.10306	.09379	.25856	-.10483

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	C3	C4	C5	C6	C7	C8	C9
C3	1.00000						
C4	.16856	1.00000					
C5	.42379	.69545	1.00000				
C6	.36327	.72000	.81537	1.00000			
C7	.08494	.34214	.52796	.20365	1.00000		
C8	.12309	.42497	.25503	.32791	.34503	1.00000	
C9	.13696	.26068	.14734	.12630	.26579	-.17118	1.00000

1-tailed Significance of Correlation Matrix:

' . ' is printed for diagonal elements.

	C1	C10	C11	C12	C13
C1	.				
C10	.15734	.			
C11	.30781	.28420	.		
C12	.30033	.19456	.40549	.	
C13	.26752	.19797	.44377	.18560	.
C14	.30142	.11489	.39072	.30962	.01413
C15	.50000	.27929	.12201	.34115	.10854
C16	.20091	.26383	.20259	.21179	.07353
C17	.07787	.02352	.09766	.01771	.50000
C18	.10927	.16800	.01426	.17898	.11374
C19	.38753	.09787	.42860	.00724	.23223
C2	.34176	.40611	.28258	.30806	.04017
C20	.15153	.26383	.32814	.39567	.43785
C21	.50000	.36820	.38856	.07244	.14388
C3	.08035	.11372	.11727	.36090	.19773
C4	.15536	.09787	.00064	.41893	.01999
C5	.19033	.39639	.00069	.13037	.43509
C6	.30950	.24846	.00012	.19456	.19797
C7	.14466	.38806	.40549	.50000	.18560
C8	.40049	.07906	.40864	.23351	.03697
C9	.14659	.43006	.41777	.35516	.33003

	C14	C15	C16	C17	C18
C14	.				
C15	.36737	.			
C16	.11368	.42832	.		
C17	.25490	.50000	.50000	.	

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	C14	C15	C16	C17	C18
C18	.15681	.26635	.25373	.06840	
C19	.06622	.24088	.09406	.00975	.00048
C2	.12450	.36624	.19820	.25301	.10135
C20	.37944	.42832	.49068	.03339	.16844
C21	.03258	.31392	.37707	.31943	.25827
C3	.04921	.40400	.48746	.17040	.18517
C4	.06622	.16066	.09406	.08221	.00010
C5	.46354	.12436	.26152	.00888	.05063
C6	.23853	.27929	.02318	.02352	.02819
C7	.30962	.34115	.21179	.05018	.09636
C8	.06937	.50000	.39913	.02154	.01563
C9	.03065	.39995	.40918	.15993	.22678

	C19	C2	C20	C21	C3
C19					
C2	.01801				
C20	.29924	.36721			
C21	.40432	.07792	.37707		
C3	.39443	.12503	.48746	.33666	
C4	.04111	.46821	.10076	.23223	.23874
C5	.15008	.16685	.08794	.25543	.03129
C6	.06612	.46846	.26383	.36820	.05771
C7	.14954	.11715	.00445	.50000	.36090
C8	.00075	.03877	.35055	.03697	.30257
C9	.33273	.34705	.13551	.33003	.28237

	C4	C5	C6	C7	C8
C4					
C5	.00033				
C6	.00017	.00001			
C7	.06990	.00836	.19456		
C8	.03089	.13892	.07906	.06813	
C9	.13348	.26766	.29785	.12869	.23526

	C9
C9	

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Extraction 1 for analysis 1, Principal Components Analysis (PC)

Initial Statistics:

Variable	Communality	*	Factor	Eigenvalue	Pct of Var	Cum Pct
C1	1.00000	*	1	5.35175	25.5	25.5
C10	1.00000	*	2	2.96223	14.1	39.6
C11	1.00000	*	3	2.21819	10.6	50.2
C12	1.00000	*	4	1.92816	9.2	59.3
C13	1.00000	*	5	1.70128	8.1	67.4
C14	1.00000	*	6	1.31595	6.3	73.7
C15	1.00000	*	7	1.17542	5.6	79.3
C16	1.00000	*	8	.92707	4.4	83.7
C17	1.00000	*	9	.86402	4.1	87.8
C18	1.00000	*	10	.79946	3.8	91.6
C19	1.00000	*	11	.61215	2.9	94.6
C2	1.00000	*	12	.42108	2.0	96.6
C20	1.00000	*	13	.25520	1.2	97.8
C21	1.00000	*	14	.19224	.9	98.7
C3	1.00000	*	15	.15447	.7	99.4
C4	1.00000	*	16	.06433	.3	99.7
C5	1.00000	*	17	.03435	.2	99.9
C6	1.00000	*	18	.01904	.1	100.0
C7	1.00000	*	19	.00362	.0	100.0
C8	1.00000	*	20	.00000	.0	100.0
C9	1.00000	*	21	.00000	.0	100.0

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Hi-Res Chart # 1:Factor scree plot

PC extracted 7 factors.

Factor Matrix:

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
C1	.13325	.00535	.53888	.12275	-.69334
C10	.37752	-.15970	-.42417	-.27684	.16164
C11	-.59333	-.44461	-.14416	.40677	.04470
C12	-.31894	-.04975	.57731	-.12196	.57432
C13	-.40974	.46993	-.45480	.10987	-.17652
C14	-.37116	.66294	-.01096	.32207	.12359
C15	.16729	.19168	.39274	-.16814	.21386
C16	-.35127	.17660	.06021	.44807	.03327
C17	.64487	.09463	-.58785	.22243	.18327
C18	.76611	-.14421	.17904	.12905	-.25784
C19	-.67949	.38327	.35498	-.22696	.24286
C2	-.25804	.65347	-.04991	-.29188	-.24090
C20	.34728	.20785	.05055	.56407	.32915
C21	.18449	-.48209	.33642	-.16935	.39855
C3	.16428	.57648	-.27337	-.22094	.46782
C4	.86580	.13950	.30513	-.18224	-.02718
C5	.73401	.58736	.03742	-.01076	-.05447
C6	.78942	.31435	.03422	-.31211	-.02076
C7	.47165	.17053	.23105	.70726	.17116
C8	.65310	-.40394	-.11584	.15005	.17170
C9	.08615	.37570	.41220	.24355	-.05735

	Factor 6	Factor 7
C1	.10100	.33610
C10	-.29268	.43638
C11	-.17824	.07490
C12	-.03566	.14189
C13	.16879	.02782
C14	-.20426	.08138
C15	.45519	-.16481
C16	.48829	.52425
C17	.21700	-.05011
C18	-.02239	.02913
C19	.10794	-.02286
C2	.13754	.11852
C20	-.02864	-.45332
C21	.15841	.12885

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	Factor 6	Factor 7
C3	-.14754	.35514
C4	-.07323	.04405
C5	.15889	-.02211
C6	-.04384	-.10021
C7	.05387	.08311
C8	.11682	.36963
C9	-.70447	.12133

Final Statistics:

Variable	Communality	*	Factor	Eigenvalue	Pct of Var	Cum Pct
		*				
C1	.92712	*	1	5.35175	25.5	25.5
C10	.72680	*	2	2.96223	14.1	39.6
C11	.77534	*	3	2.21819	10.6	50.2
C12	.80361	*	4	1.92816	9.2	59.3
C13	.66806	*	5	1.70128	8.1	67.4
C14	.74472	*	6	1.31595	6.3	73.7
C15	.52734	*	7	1.17542	5.6	79.3
C16	.87335	*				
C17	.90305	*				
C18	.72426	*				
C19	.85728	*				
C2	.67228	*				
C20	.79919	*				
C21	.60885	*				
C3	.84960	*				
C4	.90343	*				
C5	.91399	*				
C6	.83297	*				
C7	.84425	*				
C8	.80540	*				
C9	.89209	*				

VARIMAX rotation 1 for extraction 1 in analysis 1 - Kaiser Normalization.

VARIMAX converged in 22 iterations.

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Rotated Factor Matrix:

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
C1	.27254	.05229	-.14410	-.31965	-.62033
C10	.09145	.24208	-.42551	-.27798	.62651
C11	-.86823	.04422	-.03835	.03809	-.07583
C12	-.14183	.39491	.75727	.00798	.12969
C13	-.16952	-.75042	-.01094	-.02707	.12025
C14	-.12577	-.58479	.30621	.26287	.21156
C15	.45115	.13880	.42671	.14394	-.13847
C16	-.23240	-.17803	.15397	.05388	-.01139
C17	.31585	-.02422	-.57480	.44113	.38556
C18	.50625	.36560	-.48847	.13645	-.21488
C19	-.14107	-.28935	.85238	-.14264	.00404
C2	.26785	-.64255	.26316	-.30906	.06200
C20	.14227	.00840	-.03086	.87572	-.01669
C21	.03169	.73285	.19703	-.04098	.04968
C3	.31060	-.21742	.14235	.01487	.81404
C4	.82005	.35913	-.19861	.08118	.03078
C5	.86756	-.16075	-.17486	.27514	.11438
C6	.83803	.08141	-.20333	.06820	.16353
C7	.22239	.17301	-.17248	.69273	-.04013
C8	.18897	.60282	-.50709	.10506	.23757
C9	.11200	-.07926	.09889	.16095	.02381

	Factor 6	Factor 7
C1	.38637	.43942
C10	.06251	-.07131
C11	.06382	.08253
C12	.15915	.10898
C13	-.16747	.18121
C14	.37107	.20399
C15	-.26388	.11369
C16	-.08410	.86824
C17	-.35486	.05600
C18	.17181	.03729
C19	.02135	.07929
C2	.01281	.13741
C20	.06042	-.08427
C21	-.15663	.05723
C3	.11175	.10111
C4	.22536	-.06488
C5	.05668	.11365
C6	.05475	-.21982

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	Factor 6	Factor 7
C7	.27669	.42080
C8	-.09321	.27017
C9	.91327	-.05432

Factor Transformation Matrix:

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Factor 1	.72412	.37585	-.50418	.25150	.11041
Factor 2	.48092	-.72514	.29269	.17903	.22703
Factor 3	.24999	.40478	.57491	.00989	-.49926
Factor 4	-.35193	-.07084	-.27437	.71345	-.20756
Factor 5	-.10629	.37003	.46820	.42669	.65053
Factor 6	.21254	-.01783	.13512	.03613	-.24725
Factor 7	-.03924	.16370	-.12983	-.46066	.39951

	Factor 6	Factor 7
Factor 1	.04231	-.05434
Factor 2	.22896	.14558
Factor 3	.41377	.15022
Factor 4	.23878	.43212
Factor 5	-.16235	-.03095
Factor 6	-.78319	.51032
Factor 7	.27897	.71075

A total of seven factors were extracted from the data that comprised twenty one variables (possible causes of the uncompetitiveness of the local sugar firms). That is to say, seven factors were identified to be undermining the performance of the local sugar firms in the face of the changing Kenyan business environment.

The table below provides a summary of the above factors :

Table 4.2.1. A Summary of factors affecting the competitiveness of the Kenyan sugar firms.

Factor	Heavy factor loadings (variable)	Explanatory power in terms eigen-values	Likely explanation to the uncompetitiveness of the local sugar industry
1.	1. Loose financial control. 2. Over-employment of .manpower. 3. Lack of Vibrant R&D programmes. 4. Low quality human resources.	5.352	-Uncompetitiveness arising from poor management of funds and poor personnel management practices.
2.	1. Unfair competition from imported sugar. 2. Fraudulent financial management. 3. Inefficient production processes. 4. Low quality cane used.	2.962	-Stiff competition occasioned by trade liberalization.
3.	1. Increased competitors in the industry. 2. Poor worker management practices	2.218	Stiff competition occasioned by trade liberalization.
4.	1. Increased competitors. 2. Poor extension facilities.	1.928	Stiff competition arising from trade liberalization.
5.	1. Lack of modern production facilities. 2. Low quality sugar. 3. Poor infrastructure.	1.701	Uncompetitiveness arising from inferior production facilities and inputs.
6.	1. Low quality sugar. 2. Low quality cane used.	1.316	Uncompetitiveness arising from low quality inputs.
7.	1. Lack of visionary top management.	1.175	Uncompetitiveness arising from poor management of resources.

A further summary provides the following as the main factors affecting the competitiveness of the local sugar firms :

- Poor management of funds.
- Poor management of human resources.
- Poor employment policies resulting into over-employment and/or hiring of low quality personnel.
- Unfair competition from imported sugar.
- Inferior production facilities.
- Inferior quality of the inputs i.e. low quality sugar cane.
- Lack of visionary top management.

4.3 Prominent Strategic Responses

This study has brought to the fore a number of strategic measures that local sugar firms are implementing in a bid to contain the cut-throat competition they are facing as a result of the changing Kenyan trading environment.

In summary, these are the major responses the local sugar firms are making:

- Sub-contracting of services: Firms are sub-contracting to other organizations services considered to be non-core. They are concentrating on what they consider to be their core-business.

- Employee Retrenchment: Firms are offering generous packages as an inducement to early retirement by their employees. They have put a stop to recruitment of more employees.

- Creation of more responsive departments : In cases where departments like Information Technology (I. T.) and marketing have never existed, they have been introduced.

- Increased emphasis on production efficiency : Efforts to enhance efficiency in sugar processing are being undertaken through the use of modern production facilities.

- Increased activity within the marketing departments: Firms are aggressively seeking new marketing opportunities both locally and internationally. More distribution channels and outlets are being created. There are efforts to establish regional warehouses all over the country.

- Increasing emphasis on training and development by the local sugar firms: Intensive staff training aimed at efficiency enhancement and culture change is considered a key response to the changing Kenya trading environment.

- Tight budgetary control aimed at avoiding unplanned for expenditures.

4.4 Specific Measures Required To Revitalize The Local Sugar Firms

Being right at the centre of the management of the local sugar industry, Kenya Sugar Authority Officials, Company General and Deputy General Managers and Directors of Out-grower Organizations were interviewed on a number of issues relating to the future of the local sugar industry. They were required to point out the specific measures that need to be undertaken to revitalize the local sugar firms.

The above officials indicated that the local sugar industry still has an assured demand for sugar as the product had no perfect substitute at least in the foreseeable future. However, to ensure sustained competitiveness on the part of the local sugar firms a number of specific measures needed to be put in place. In summary, the following measures were considered by those interviewed to be key in ensuring the competitiveness of the Kenyan sugar firms:

- Collaborative research by company managers, Kenya Sugar Authority officials, extension officers and farmers needs to replace the present system of research which is too fragmented to lead to focussed results.
- A degree of protection against cheap imports by the government through enforcement of strict tariff measures is necessary while the individual firms put in place internal efficiency improvement measures.

- In ensuring the competitiveness of the local sugar firms, the support of the government in terms of reduction in corporate taxes and excise duty, improvement of infrastructure, and formulation of policies that ensure an improved investment climate is vital.
- Companies should only hire into management well nurtured local manpower with a profound sense of corporate management.
- The Kenya Sugar Authority should establish a common and working marketing body for the local sugar. This marketing body should aggressively market Kenyan sugar both locally and internationally.
- Efforts must be made by local sugar firms towards reducing their overall operating costs.

CHAPTER 5

DISCUSSIONS AND CONCLUSIONS

Many national economies are undergoing rapid transformations as a result of the explosive growth of global trade, the attendant international competition and widespread technological advancements.

Globalization of trade in the world today dictates that national economies remain open to external aggression, while technological advancement ensures wide availability of information and increased speed of communication. As a result, today's markets for goods and services are changing at an incredible pace. There is a growing consumer price and value sensitivity, a rapid growth of new forms of businesses and a growing erosion of brandy loyalty.

The foregoing changes are throwing many companies into a state of confusion in search of survival formulae.

This study chose to focus on the Kenyan sugar industry. The main purpose of the study was to identify the major causes of the inability of the local sugar firms to compete effectively within the changing Kenyan trading environment.
The study further aimed at finding out whether the local sugar firms were making any strategic response to the changing Kenyan business environment.

Findings from this study indicate that the local sugar firms have been seriously affected by the trend towards trade liberalization in Kenya.

Respondents cited local investors who import sugar into the local market as the single most greatest source of competition to the locally manufactured sugar and the local sugar firms in general. Those interviewed contended that local sugar firms were facing very stiff competition from imported sugar, although the competition was considered to be largely unfair.

While contending that stiff competition was an inevitable eventuality, following the changing Kenyan business environment, those interviewed observed that Kenyan sugar firms were plagued by a number of bottlenecks that made it near impossible for them to compete effectively at an international level.

Many of those interviewed cited the unfair competition from imported sugar as the single most critical factor affecting Kenyan sugar firms. Respondents observed that most of the imported sugar was not being taxed. This made imported sugar to appear much more cheaper and attractive to consumers than locally manufactured sugar.

Further those interviewed observed that cane-husbandry in Kenya was not quite well managed. This implies that the cane used in the manufacturing process is never of good quality. This often led to high wastage during the manufacturing process which, of course, translated into high production costs.

Lack of modern production facilities was cited by respondents as one of the major factors undermining the competitiveness of Kenyan sugar firms. This often resulted into frequent breakdowns, delayed production schedules and high wastage rates. Overally, production facilities used by the local sugar firms were considered not to be sufficiently efficient. This, too, translated into very high production costs.

Poor infrastructure within the sugar cane growing areas was also considered a major problem by respondents. This was considered a problem as it always led to high vehicle maintenance costs.

Respondents also attributed the uncompetitiveness of the local sugar firms to the harsh tax regime in Kenya. They observed that the high corporate tax and excise duty in Kenya meant high cost of doing business, which had the effect of squeezing the small profit margins realizable.

Untimely payments to farmers coupled with poor extension facilities and inadequate credit facilities were cited as further factors that resulted into poor cane husbandry, as they often left the farmer demoralized.

A number of respondents indicated that a number of departments in their firms were over - established. Uncoordinated employee recruitment efforts in the pre-liberalization era had resulted into many departments having more than the required number of staff.

Further findings indicated that a number of those who were in employment did not have the right skills. Those interviewed observed that this over-establishment was placing an unnecessary cost to many of the Kenyan sugar firms, hence undermining their competitiveness.

Lack of vibrant research and development programs within the Kenyan sugar firms was also cited as a situation that could not guarantee the competitiveness of the Kenyan sugar firms.

On strategy formulation, this study found out that Kenyan sugar firms were putting in place a number of measures aimed at containing the cut-throat competition that has come to be the norm in the Kenyan business environment today.

Those interviewed indicated that companies have chosen to sub-contract to other organizations services considered to be non-core and an unnecessary cost to the companies. Companies have chosen to concentrate on areas/ tasks considered to be their core-businesses like the processing of sugar. Subsidiary services like transportation have been sub-contracted to other organizations. Mumias sugar company has for instance sub-contracted transport services to the out-grower organization.

Employee retrenchment is another key response by the Kenyan sugar firms to the changing business environment. A number of companies have designed generous packages as an inducement to early retirement. Natural attrition is also being used as a means to achieving staff reduction. All the respondents considered staff reduction an essential effort towards cutting down on fixed costs in form of labour.

A number of local sugar firms have responded to the changing trading environment in Kenya by creating more responsive departments. This study found out that in cases where such departments as marketing have never existed, they have been created. One company was recruiting a manager in charge of a newly created marketing department at the moment this study was going on. Many companies have also created Information Technology departments.

All the respondents interviewed intimated that there were a number of efforts by companies directed at establishing closer contacts with the consumers. These efforts included creation of more distribution channels, and outlets. Further, regional warehouses have been created with the aim of getting the products closer to the consumer.

Respondents also indicated that a number of ambitious marketing programs were in the pipeline, towards stimulating and maintaining customer loyalty. These programs include product differentiation and effective branding of products.

Companies have also put in place measures aimed at improving on production efficiency. High production efficiency was considered a key competitive tool as it always ensured lower overall costs of production. Efforts in this direction included the installation of modern sugar processing facilities, serious collaborative research into other breeds of sugar cane with high sugar content and short maturity period and placing greater emphasis on good cane husbandry practices.

More than ever before, managements of local sugar companies are placing a lot of emphasis on the training and development of their staff. There is considerable effort in virtually all the government owned companies towards training aimed at producing highly skilled and easily business environment – adapting manpower. Companies have in place policies guiding both the external and in house training programs. Those interviewed on this subject indicated that at such a time of intense competition in the wider global business environment, training and development of staff has become an imperative competitive tool.

Those interviewed, made one important observation, that while the Kenyan sugar firms had a lot in their powers to do in response to the changing Kenyan business environment, there were some specific measures that needed to be collectively conceived and undertaken by all the stakeholders before the local sugar industry achieved the much needed competitive muscle.

Respondents observed that local sugar firms were not capable of effectively competing in the Kenyan market with imported sugar, which retailed at considerably lower prices. Imported sugar, which was feared to be in the process of killing the local sugar industry, appeared much more cheaper for two major reasons. One, local importers of sugar did so without paying the full value of customs and other charges, taking advantage of the loopholes currently prevailing in the customs department. Two, a huge proportion of the imported sugar originated from some of the most highly subsidized economies of the world.

Respondents therefore called on the Government to ensure some degree of protection against imports through the enforcement of strict tariff measures while the local sugar firms gradually adjusted to the changing global business environment.

While respondents acknowledged that the competition arising from the liberalization of world trade was both healthy and inevitable, full benefits could only be realized if the customs department was fair in the enactment and collection of all the customs charges due on imported goods.

Respondents observed that for the sustained competitiveness of the local sugar firms, government support in terms of reduction in corporate taxes and excise duty was imperative.

A number of respondents made it clear that the Kenyan sugar firms needed to insist on hiring well nurtured local manpower with a profound sense of corporate management into their management, if they were to develop and maintain competitiveness.

Respondents were unanimous that the Kenya Sugar Authority needed to establish a vibrant marketing body for the local sugar both in local and international markets, if the local sugar industry is to become competitive. The common marketing body should aim at conceiving / developing a common marketing strategy for the local sugar.

Finally, respondents suggested the need for collaborative research efforts involving company managers, Kenya Sugar Authority, extension officers, farmers and all other stakeholders. This research efforts should entail such activities as a search for high yielding cane varieties, cane varieties with a short maturity period, and high quality cane husbandry methods. This was considered an essential step towards the reduction of overall costs of production – hence sustained competitiveness.

5.2 RECOMMENDATIONS

Globalization of trade and technological advancement have brought with them the one-world one-market ideology. Competition arising from these, is emerging as the single most critical challenge facing today's companies. As a result, today's business environment is becoming considerably dynamic.

No country today can remain isolated from the world economy. If a country closes its markets to foreign competition its citizens will pay more for lower-quality goods. But if it opens its markets, it will face severe competition and many of its local businesses will suffer.

Given the one-world one-market ideology that is rapidly taking root today, local sugar companies must begin seeing themselves as existing in a global family of sugar companies. Local sugar companies should strive to attain overall cost leadership in the world sugar industry, in order to remain competitive, as it is increasingly becoming a reality that in a competitive business environment market place success goes to the competitor who can deliver goods and services at the least cost.

Findings from this study indicate that the single most critical threat to the local sugar industry is the unfair competition arising from imported sugar. Imported sugar is offering unfair competition to the local sugar as it is not usually fully taxed.

To save the local sugar industry from collapse, this study recommends that the Kenyan government through the customs department removes the loopholes currently prevalent, that lead to imported sugar entering the local market without payment of full customs charges.

This study further urges the government to provide incentives to the local sugar industry in form of a generous export compensation scheme in order to make local sugar competitive in the foreign markets. This study further recommends to the government the need for considerable reduction in corporate taxes and excise duty in the entire manufacturing sector. This will go a long way in reducing the cost of producing sugar in Kenya in particular, thus enhancing the competitiveness of the local sugar industry.

This study recommends that research be given top priority by all the stake-holders in the sugar industry.

Finally, this study recommends that local sugar companies adopt a positioning which is purely commercial. All the key managerial functions of the companies must be handled professionally. In this direction, there is a clear need for company management to be in the hands of well trained men and women with a profound sense of effective corporate management. Company management must always think globally as they act and plan within their local environments.

5.3. LIMITATIONS OF THE STUDY

Results from this study should be interpreted in the light of the following limitations.

Most of the officials contacted for interview, particularly officers at the KSA, considered the information sought to be very sensitive. The officials were not willing to offer written responses. In such circumstances the researcher resorted to verbal/indirect methods of collecting the required data. This presented slight difficulties in the data collection process.

Lack of adequate time was a problem in the data collection process. Some of the respondents were not able to get time out of their busy schedules to honour appointments for interview as scheduled. As a result, the study suffered some degree of low response rate.

5.4 RECOMMENDATIONS FOR FURTHER RESEARCH

This study recommends further research in the local sugar industry, to determine why for instance sugar production per acre of land is lower in Kenya compared to that of other leading producers of sugar. Further research needs to carried out to determine the appropriateness of the present managements to the challenges being occasioned by the changing Kenyan business environment.

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APPENDIX I

PRODUCTION AND CONSUMPTION LEVELS OF SUGAR IN KENYA 1986 – 1995

	Unit	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995*
PRODUCTION	Met. Tons(000)	370	390	473	431	413.8	426.5	370	385	303 08	384
CONSUMPTION	Met. Tons(000)	494 869	439 049	421 749	475 691	434 701	427 196	524	570	560	403 588

*1995 figures are provisional

Source Statistical Abstract (1996) by the Central Bureau of Statistics Republic of Kenya

APPENDIX II

Possible causes of the inability of the local sugar firms to compete effectively : Variables on which factor analysis was applied.

C1	-	Low quality product (sugar).
C2	-	Inefficient production processes.
C3	-	Lack of modern production facilities.
C4	-	Low quality human resources.
C5	-	Over-employment of manpower.
C6	-	Lack of vibrant R&D programmes.
C7	-	Poor extension facilities to farmers.
C8	-	Inadequate credit facilities to farmers.
C9	-	Untimely payments to farmers.
C10	-	Poor infrastructure.
C11	-	Loose financial control.
C12	-	Poor worker management practices.
C13	-	Unfair competition from imported sugar.
C14	-	Low quality cane used.
C15	-	Poor cane husbandry.
C16	-	Lack of visionary top management
C17	-	Government interference in Company Management.
C18	-	Poor relationship between farmers and companies.
C19	-	High corporate taxes in Kenya.
C20	-	Increased number of competitors in the sugar industry.
C21	-	Fraudulent financial management.

APPENDIX III

SUMMARY OF THE RESPONDENT'S RATING OF THE POSSIBLE CAUSES OF THE UNCOMPETITIVENESS OF THE LOCAL SUGAR INDUSTRY

CAUSES/ RESPONDENT	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	C11	C12	C13	C14	C15	C16	C17	C18	C19	C20	C21
R1	2	2	3	3	4	4	4	4	3	3	1	1	4	4	4	1	3	4	2	4	2
R2	2	4	3	3	4	3	4	4	3	3	2	1	4	4	4	3	4	4	2	4	1
R3	3	2	3	4	4	4	4	4	3	4	2	1	3	3	4	1	3	4	1	3	2
R4	2	1	3	4	4	4	4	4	3	3	1	2	3	3	4	1	3	4	2	4	2
R5	1	2	3	3	3	4	2	4	2	4	1	1	4	3	3	1	4	4	1	3	2
R6	2	1	3	3	4	4	4	3	3	2	1	2	4	4	4	2	3	4	2	4	1
R7	2	2	3	3	4	4	4	3	4	4	1	1	4	4	3	1	4	4	2	4	1
R8	2	2	4	3	4	4	4	4	3	4	1	2	4	4	4	3	4	4	2	3	2
R9	1	2	4	4	4	4	4	4	3	4	1	2	3	4	4	1	4	4	2	4	1
R10	1	4	4	3	4	4	3	3	3	3	1	3	4	4	4	1	2	2	4	3	2
R11	3	4	3	3	4	4	3	3	3	2	1	1	4	4	4	1	2	4	2	3	1
R12	1	4	4	4	4	4	3	3	4	4	1	1	4	4	4	1	3	4	2	4	1
R13	2	4	4	2	4	4	3	3	3	3	1	1	4	4	4	2	3	1	4	3	1
R14	1	2	3	1	2	2	3	3	3	3	3	2	4	4	4	2	2	2	3	4	2
R15	2	2	3	1	2	2	3	3	3	3	3	2	4	4	3	2	1	2	3	2	1
R16	1	2	4	2	4	4	4	4	3	3	3	1	4	4	3	1	4	2	1	4	1
R17	2	2	4	3	4	4	3	4	3	4	1	1	4	4	4	1	3	4	1	2	1
R18	1	1	4	3	4	4	4	4	3	3	1	1	4	4	4	1	4	4	1	4	2
R19	2	1	3	3	3	4	3	4	4	3	2	2	3	4	4	1	2	4	2	3	2
R20	3	3	4	4	4	4	4	4	4	3	1	2	4	4	3	2	2	4	2	4	2

C1, C2, C3,......... Refer to cause 1, Cause 2, Cause 3, etc.
R1, R2, R3.......... Refer to Respondent 1, Respondent 2, Respondent 3, etc

Appendix IV

GOVERNMENT SUGAR COMPANIES SHARE HOLDING

COMPANY	SHARE HOLDER	PERCENTAGE
1. CHEMELIL	Kenya Government	95.38
	Development Finance Company of Kenya	1.73
	Grindlays Finance Corporation	1.73
	Kenya Shell Ltd	1.16
		100.00
2. MUMIAS	Kenya Government	70.76
	Kenya Commercial Finance Company.	5.00
	Commonwealth Development Corporation (CDC)	17.18
	Booker McCONNEL	4.42
	East African Development Bank.	2.64
		100.00
3. NZOIA	Kenya Government	97.93
	Industrial Development Bank.	0.94
	Five Cail Babcock	1.13
		100.00
4. SONY	Kenya Government	98.80
	ICDC	0.70
	Industrial Development Bank.	0.30
	Mehta	0.20
		100.00
5. MUHORONI	Kenya Government	74.17
	Uketa (Mehta Group)	16.86
	Development Finance Company of Kenya	8.61
	Others	0.36
		100.00
6. MIWANI	Kenya Government	49.00
	Vanessa Associates	51.00
		100.00

Source : Kenya Sugar Authority (1999)

APPENDIX V

UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE
MBA — PROGRAMME

LOWER KABETE CAMPUS

Telephone: 732160 Ext. 225
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity Nairobi

P.O. Box 30197
Nairobi, Kenya.

Date ... ...

<u>TO WHOM IT MAY CONCERN</u>

The bearer of this letter ... Mr. Peter [illegible] ...
Registration No ... [illegible] ...
is a Master of Business and Administration student of the University of Nairobi.
He/She is required to submit as part of his/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 if you assist him/her by allowing him/her to collect data in your organisation for the research.

Thank you.

Sincerely,

<u>DR. MARTIN OGUTU</u>

Lecturer, and Co-ordinator of the MBA Programme

M. B. A. OFFICE
P. O. Box 30197,
- 7 MAY 1999
NAIROBI.
NAIROBI UNIVERSITY COMMERCE FACULTY

APPENDIX VI

QUESTIONNAIRRE

SECTION I

This section of the questionnaire is to be completed by the general manager and the deputy general manager or equivalent managers, only.

1. Year company started operating

   ....

2. Government share-holding

   ....

3. Has your company experienced any effect arising from the fast changing Kenyan business environment?

   Yes ☐ No ☐

4. If yes, in what direction has your company been affected ?

   Positively ☐ Negatively ☐

5. To what extend has the company been affected?

   Not seriously ☐ Seriously ☐ very seriously ☐

6 i) How is the competition facing your company ?

   Very stiff ☐ fairly stiff ☐ Not stiff ☐ Not stiff at all ☐

   ii) Which group presents greatest competition to your company's products ?

   1. A local public company ☐
   2. A local private sugar company ☐
   3. Local investors who import sugar ☐

   Others (specify)

   iii) Have you considered the option of identfying other marketing opportunities for your company ? Yes ☐ No ☐

7 i) Do you see the Kenyan Sugar Authority having any role to play in the presently changed Kenyan business environment?

   Yes ☐ No ☐

   ii) Kindly elaborate

   ....

8 i) Do you think the Government has any role to play in the sugar industry given the changed Kenyan business environment?

   Yes ☐ No ☐

   ii) Kindly elaborate

   ....

SECTION II

To be completed by the Kenya Sugar Authority top brass, Directors of Out-grower Organizations, and Company Managers

1. Below are some of the possible causes of the inability of the local sugar firms to compete effectively within the changing Kenyan business environment. Kindly indicate the extent to which you consider each as an important cause of the uncompetitiveness of the Kenyan Sugar firms.

KEY: 4 - To a very great extent 3 - To a greater extent 2 - To a little extent 1 - Not a cause at all

	Possible Causes	1	2	3	4
1).	Low quality product (sugar)	☐	☐	☐	☐
2).	Inefficient production processes	☐	☐	☐	☐
3).	Lack of modern production facilities	☐	☐	☐	☐
4).	Low quality human resources	☐	☐	☐	☐
5)	Over employment of man power	☐	☐	☐	☐
6)	Lack of vibrant R & D programmes	☐	☐	☐	☐
7)	Poor extension facilities to out growers	☐	☐	☐	☐
8)	Inadequate credit facilities to farmers	☐	☐	☐	☐
9)	Untimely payments to farmers	☐	☐	☐	☐
10)	Poor infrastructure	☐	☐	☐	☐
11)	Loose financial control	☐	☐	☐	☐
12)	Poor worker management practices	☐	☐	☐	☐
13)	Unfair competition from imported sugar	☐	☐	☐	☐
14)	Low quality cane used	☐	☐	☐	☐
15)	Poor cane husbandry	☐	☐	☐	☐
16)	Lack of visionary top management	☐	☐	☐	☐
17)	Government interference in company management	☐	☐	☐	☐
18)	Poor relationship between farmers & company	☐	☐	☐	☐
19)	High corporate taxes in Kenya	☐	☐	☐	☐

20)	Increased number of competitors in the sugar industry	☐	☐	☐	☐
21)	Fraudulent financial management	☐	☐	☐	☐
	Others (specify)				

2. For each of the causes considered to be very important in explaining the inability of the Kenyan sugar firms to compete effectively, kindly elaborate:

i) ....
....
....
....

ii) ....
....
....
....

iii) ....
....
....
....

iv) ....

v)

vi) ....

SECTION III

To be completed by Company General Managers and Deputy general Managers only

1 Below are some of the possible responses by firms facing a changing business environment Kindly indicate by ticking which of the responses your firm has been/is implementing

Possible responses	**Indication**
a) Sub- contracting of services	☐
b) Employee retrenchment	☐
c) Diversification of products	☐
d) Creation of more responsive departments	☐
e) Improving Reasearch & Development	☐
f) Increasing production efficiency	☐
g) Increased emphasis on training & development	☐
h) Increasing marketing activities	☐
i) Enhancing information processing capacity	☐
j) Improved relations with stake holders	☐
k) Tight budgetary and financial control	☐
l) Integration (vertical or horizontal)	☐
m) Privatization	☐
n) Developing other marketing opportunities	☐
Others (specify)	

2 Kindly. indicate what your company is doing to implement the responses considered important in (1) above

SECTION IV

To be completed by K S A officials Company General and Deputy general Managers and Directors of Out-grower Organizations

1 i What is the present role of the following interest groups in the Kenyan Sugar Industry?

I Sugar-cane farmers

....

....

II Out-grower organizations

....

....

ii Evaluate their present roles

....

....

....

2 What would you say is the future of the Kenyan sugar firms in the face of the changing Kenyan business environment?

....

....

....

3 Kindly Sir/Madam, indicate below what specific measures need to be under taken, to ensure that the competitiveness of the Kenyan sugar firms is enhanced

i) ....

ii) ....

iii) ....

iv) ....

v) ....

vi) ....

vii) ....

(futher response to this or any other question on a separate sheet of paper is allowed)