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**KENYA'S COMPETITIVENESS IN THE FLORICULTURE INDUSTRY: A
TEST OF PORTER'S COMPETITIVE ADVANTAGE OF NATIONS
MODEL**

By

BENARD OMWENGA

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

September 2007

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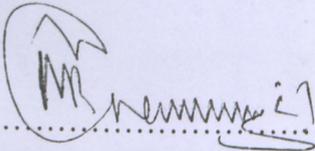
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DECLARATION

DEDICATION

This Management Research Project is my original work and has not been submitted for another degree award of this or any other University.

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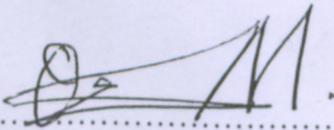


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ACKNOWLEDGEMENT

DEDICATION

I dedicate this study to my loving wife Evelyne Kerubo Osinde for her consistent support all round and to our wonderful children Bakita and Nyamera who despite their ages have been very understanding.

Special thanks to my Supervisor, Dr. Martin Ogino, for his tireless and invaluable assistance in ensuring that this Research Project was done to acceptable standards.

I am grateful to my MBA colleagues, especially Sami Lodiwa, whose assistance and useful suggestions on this Research Project cannot be overlooked.

Finally and most importantly, thanks to the Almighty God for giving me the will and energy to finalize the Research Project.

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CHAPTER 1 INTRODUCTION

ABSTRACT

From humble beginnings half a century ago, Kenya's floricultural sector has grown to dominate Africa's and, indeed Europe's flower exports. Between 1995 and 2002, Kenyan flower export earnings grew by more than 300%, in a period when overall export growth was only 40%. Kenya has now become the largest producer in Africa and the leading supplier to Europe, producing approximately \$200 million in cut flowers and foliage annually. Nearly all of it is exported, with 94% of the exports going to the competitive European Union market. The country's flower exports now control 32% of the European Union market, consolidating the lead Kenya achieved in 2000 after edging out Israel and Columbia.

Porter (1990) argues that with regard to national competitiveness, the central question to be answered is why firms in particular nations achieve international success in distinct segments and industries. The factors that he found to explain international success and the creation of competitive advantage were linked into the now well-known competitive advantage of nations model. The framework presents the major determinants of competitive advantage as well as how they interact with one another. The four determinants are factor conditions, demand conditions, related and supporting industries and the context for firm strategy and rivalry. Two exogenous factors, government and chance influence the functioning of these four major determinants.

This study determines whether Kenya's flowers are competitive in the world market on the one hand and whether this competitiveness can be explained by the factors in Porter's diamond model on the other hand. The study used the survey research design and drew its population from all the 49 registered members of the Kenya Flower Council (KFC) as at August 11, 2007. Primary data gathered with the help of a structured questionnaire was analyzed using percentages, mean scores and standard deviations to enable comparison. In some situations, frequency tables and graphs were used for presentation. Secondary data on world trends in flower export market share by country was collected from the floriculture-based bodies within and without Kenya.

The results show that Kenya's flowers are competitive in the global market and that this can be attributed to factor conditions, the investment friendly Kenyan culture and good climate, government policy, supporting local organizations and the deliberate involvement of flower firms in marketing and corporate strategies.

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 National Competitiveness

According to Khemani (1997), a manager in the Private Sector Development Department, World Bank, the term "competitiveness" is used widely in the business and economic literature with various meanings. Often it alludes to specific macroeconomic environment variables, such as stable exchange rates and trade balances. Other times, low labor costs or government policies in the areas of science and taxation are cited as competitiveness factors. It would be a misnomer, however, to refer to these types of variables as defining competitiveness.

Competitiveness, according to Khemani (1997) should be equated with productivity: It relates to measures that firms, industries, regions and governments cautiously adopt to foster, maintain and increase productivity on a sustainable basis. It depends on the continual upgrading of human resources, capital and natural resources. It relates to induced technological change and innovation. It applies to the changing organizational structure and behavior of firms, industry and government — both locally and nationally. It refers to creating and strengthening inter- and intra-industry and international linkages.

Porter (1990) argues that with regard to national competitiveness, the central question to be answered is why firms based in particular nations achieve international success in distinct segments and industries. How can we explain why Germany is the home base for so many of the world's leading luxury cars and chemical firms; why is Switzerland the home base for international leaders in pharmaceuticals and chocolate; why are Swedish firms leaders in heavy trucks and mining? The search is for the decisive characteristics of a nation that allow its firms to create and sustain competitive advantage in particular fields, that is, the competitive advantage of nations.

There is a long history of efforts to explain the determinants of competitiveness. The theory of Absolute Advantage was articulated in Adam Smith's book, *The Wealth of Nations*, published in 1776. David Ricardo in his book *The Principles of Political Economy and Taxation*, published in 1817 refined Adam Smith's theory by coming up with the theory of Comparative advantage. His was, indeed, the earliest attempt to understand how nations compete. In the 1920s, Heckscher

and Ohlin postulated that patterns of trade depend on the relative abundance of factor endowment. Raymond Vernon's theory of the Product Life Cycle came in 1966 while Paul Krugman, along with several of his colleagues in the mid 1980s, developed the theory of Economies of Scale and Imperfect Competition.

During the twentieth century, other well-known economists contributed to a better understanding of competitiveness. Schumpeter (1934) emphasized the key role that entrepreneurship played, serving as an engine for development. Solow (1956), MIT economist and Nobel Prize winner, studied the growth factors that drove the US economy between 1948 and 1982 and demonstrated the fundamental importance of technological innovation and increased know-how in an economy.

Porter (1998) believes that the above standard classical theories of international trade have fallen short of explaining sufficiently the current pattern of trade, especially since globalization set in. They cannot explain why firms based in particular nations are able to compete successfully internationally. Nor can they explain why a nation's firms are able to sustain their competitive positions over considerable periods of time. A nation, according to him, attains a competitive advantage if its firms are competitive. Firms become competitive through innovation. He introduced what has become known as the 'diamond of national competitiveness' with four facets determining the competitive strengths and weaknesses of countries and their major sectors. They are the existence of resources or factor conditions such as skilled labour, research and information infrastructure; a business environment that invests in innovation; a demanding local market; and the presence of supporting industries.

The above factors, Porter (1998) individually and as a system create the context in which a nation's firms are born and compete; the availability of resources and skills necessary for competitive advantage in an industry; the information that shapes what opportunities are perceived and the directions in which resources and skills are deployed; the goals of the owners, managers and employees that are involved in or carry out competition; and most importantly the pressure on the firms to invest and innovate.

1.1.2 Floriculture Industry in Kenya

From small beginnings half a century ago, the floricultural sector has grown to dominate Kenya's horticultural exports (Whitaker and Kolavalli, 2004). Kenya is a major exporter of horticultural products that include flowers, fresh vegetables and fruits, with flowers accounting for more than half of the earnings. In recent years, the unit value of floricultural production has increased dramatically with a shift toward production of higher value flowers, predominantly roses. Kenya's horticulture sector, dominated by floriculture, is one of the three most important contributors to the country's foreign exchange earnings, along with tea and tourism, accounting for about 14% of Kenya's total export earnings. Between 1995 and 2002, Kenyan flower and horticultural export earnings both grew by more than 300%, in a period when overall export growth was only 40%. Export earnings have consistently grown from a modest Ksh 3.643 billion in 1995 to Ksh 18.719 billion in 2004. Average export tonnage grew from 29, 373 to 60,982 during the same period (Horticultural Crop Development Authority, 2004)

Kenya has now become the largest producer in Africa and the leading supplier to Europe. She produces approximately \$200 million in cut flowers and foliage annually. Nearly all of it is exported, with 94% of the exports going to the European Union. The latest figures released by the Kenya Flower Council (KFC) show that the country's flower exports now control 32% of the European Union market, consolidating the lead Kenya achieved in 2000 after edging out Israel and Columbia. This is a point above the 2006 European market share of 31% per cent, which the country attained after climbing from 25 per cent in 2003 (Riungu 2007)

Kenya has been the leader in cut flower production and exports from sub-Saharan Africa, with about 60% of African flower trade originating in Kenya. Kenya's success has had a significant spillover effect, serving as a model for development of flower industries in other countries, including Zimbabwe, Uganda, and Tanzania. (FloraCulture International, 2005)

The floriculture sector has been dynamic enough to move into higher value production, upgrading where necessary. Early production focused on hardy plants, primarily carnations that could withstand relatively crude open field growing conditions and less than optimal handling and transport conditions. The industry has moved up from low input open field flower production to greenhouse production at higher altitudes to produce higher value flowers. The main aspects of floriculture technology are: Hardware (structures and equipment to manage

climatic conditions during production, storage and transport); plant-ware (breeding and multiplication of flower varieties with characteristics desired in the market and suitable for local production conditions); nature-ware (materials and knowledge systems that reduce environmental impacts of production) and; software (technical and management knowledge).

The industry has however had its share of challenges. High production costs, and insecurity are forcing firms in Kenya's flower sector to relocate to neighbouring countries, particularly Ethiopia. According to Riungu (2006) five investors have already acquired farms and started the groundwork to set up operations in Ethiopia citing the following challenges:

Natural disasters such as drought or pests; the unpredictability of the Kenyan weather patterns has led to inefficient use of resources with reducing rainfall due to increased deforestation. Kenya has not had a reliable rainfall pattern since the 1997/98 El Nino rains, despite the fact that there is no water policy in place, leaving agriculture at the mercy of the vagaries of the weather.

A good number of Kenya's flower firms are concentrated around Lake Naivasha on account of its water supply. In 1995, the lake was designated as a Ramsar site, a wetlands of international importance due to its rich diversity of flora and fauna. But with the expansion of the 4,000-acre flower farming sector on the lake, the population around the lake has grown in the past 20 years from about 7,000 to about 300,000. There is no legal framework guiding the use of water from Lake Naivasha. The flower farms, through the Lake Naivasha Growers Association and the Lake Naivasha Riparian Association, have drafted their own self-regulating codes for responsible water use and conservation of the lake. Among these are keeping a 100-metre buffer zone of riparian land between the farms and the lake, establishment of wetlands for natural water purification and the sinking of boreholes instead of drawing water directly from the lake (The East African, Nairobi May 1, 2007)

High production costs that are as a result of high costs of packaging materials, seeds and fertilizers as well as the escalating price of fuel and security surcharges in Kenya. Electricity cost is also very high compared to other competing countries. The poor national infrastructure has also led to an increase to the costs. Production costs also increase due to expenditure associated with supporting the welfare needs of employees such as schools and dispensaries as well as adhering to ministry of health requirements.

Transport: Securing constant freight space is a major challenge in the Kenyan flower industry. Air cargo and storage before delivery are key factors in ensuring that the produce gets to the market in good time in order to safeguard the shelf life of the produce due to its perishable nature.

Increased global competition: The change in merchandising concepts in Europe and the increase in trading blocks has reduced the demand for Kenyan goods. In order for the flower exporters to effectively handle this challenge, it must take more than informality in strategic planning practices.

There are growing concerns that the success of Kenya's flower industry, whose earnings are estimated at \$350 million, has blinded the authorities to the reality of the competition, to break the country's domination of the world's largest market - the European Union. Kenya has commanded a 25 per cent market share since 2000 after edging out Columbia and Israel and, last year, its share increased to 31 per cent. But now, emerging suppliers such as Rwanda, Ethiopia and Uganda have designed intensive marketing programmes to promote their countries as friendly for foreign flower investors (The East African, Nairobi May 1, 2007)

1.2 Statement of the Research Problem

Kenya's horticulture sector, dominated by floriculture, is one of the three most important contributors to the country's foreign exchange earnings, along with tea and tourism, accounting for about 14% of Kenya's total export earnings. Between 1995 and 2002, Kenyan flower and horticultural export earnings both grew by more than 300%, in a period when overall export growth was only 40%. Latest figures released by the Kenya Flower Council show that the country's flower exports now control 32 per cent of the European Union market, consolidating the lead Kenya achieved in 2000 after edging out Israel and Columbia. This is a point above the 2006 31%, which the country attained after climbing from 25 per cent in 2003.

A nation attains a competitive advantage if its firms are competitive (Porter 1998). The existence of resources or factor conditions, a business environment that invests in innovation, a demanding local market and the presence of supporting industries, government support and availability of other enabling infrastructure individually and as a system create the context in which a nation's firms are born and compete. Change in the Kenya government, long-standing problems of poor governance, labour unrest, power shortages, and high utility costs continued to seriously dampen

the investment climate in Kenya. Despite this environment, the strength of the flower sector has been particularly impressive.

There has been a lot of research around competitiveness in the recent past by various scholars: Warucu (2001) studied the competitive studies employed by commercial banks in Kenya. Kirui (2001) looks at outsourcing as a source of competitive advantage in BAT Kenya Ltd. Kerama (2003) surveyed local manufacturing firms listed in the Nairobi Stock Exchange, looking at their competitive strategies. Most of the studies have focused on traditional models of competitiveness, certainly not the most appropriate framework for explaining sustainability in international competitiveness. Porter (1998) not only looks at reasons why firms trade internationally but, more importantly seeks to explain why firms in particular nations attain and sustain international competitiveness. There is no study that has tested this model on any Kenyan industry. This study tests this model in one of the most successful industries in Kenya – the Floricultural industry.

Despite a relatively well educated labor force, labour costs in Kenya remain high and productivity lower than it should be. The World Bank estimated wages of Kenya's unskilled workers as \$101 per month which is considerably higher than regional and even global export competitors such as Zambia with unskilled labour wages of roughly \$48 a month (World Bank, 2004). Kenya's management practices cannot be lauded to be even close to those of countries like Japan and USA. Abundance of natural resources such as good climate all year round due to proximity to the equator alone cannot explain the sustained international competitiveness in the floricultural industry. There are many other countries with similar proximity such as Uganda which have not done as well. What's more, history has it that countries like Japan, Italy and Korea who are industrial power houses had limited natural resources. Why then, have Kenya's firms in the floricultural industry downplayed traditional international trade theories to emerge as a case of successful sectoral development characterized by dramatic growth in productivity, quality, impressive growth in exports, and enhanced global competitiveness?

1.3 Objective of the Study

The objectives of this study were:

- i. To determine how competitive Kenya's flowers are in the world market
- ii. To determine whether competitiveness of Kenya's flower industry can be explained by the following factors:
 - a. Factor conditions
 - b. Demand conditions
 - c. Related supporting industries
 - d. Firm strategy and rivalry
 - e. Government support.

1.4 Importance of the Study

This paper should help policymakers in government and the private sector alike in identifying priorities in the quest to increasing the country's competitiveness. The success story of the Floricultural industry is one that other peer industries facing similar challenges and circumstances may wish to emulate.

For managers in industry, international trade theory alone is too general. It explains why firms trade across borders but does not attempt to explain how they create and sustain competitiveness internationally. Globalization has changed international trade. A look at a new theory explaining competitiveness will give insights into how to set strategy to become more effective international competitors.

To investors and managers in the floriculture industry, it will give insights into what it takes the industry to tick and how to leverage the factor conditions in the country to their advantage.

The findings from the study are meant to contribute to the body of scholarly knowledge encompassing the cross-border operations of entrepreneurial ventures by Kenyans.

CHAPTER TWO: LITERATURE REVIEW

2.1 Classical Theories of International Trade

The most prominent classical theories of international trade were suggested by Adam Smith, David Ricardo, Haberler and J.S. Mill. The basic assumptions of the classical theories, Bhagwati (1960) are: 2 x 2 x 1 model (implying two countries, two products and single factor of production); perfect competition in both output and input markets; homogenous labor; mobility of labor internally and immobility internationally; constant returns to scale; free trade; no transportation costs; labor theory of value; full employment of factors of production. The seeds of the classical theory are found in the writings of Adam Smith but most of the credit has gone to David Ricardo in formulating an explicit theory in terms of comparative cost doctrine.

2.1.1 Mercantilism

The first reasonably systematic body of thought devoted to international trade, Crowley (1993) is called "mercantilism" and emerged in seventeenth and eighteenth century Europe. An outpouring of pamphlets on economic issues, particularly in England and especially related to trade, began during this time. Although many different viewpoints are expressed in this literature, several core beliefs are pervasive and tend to get restated time and time again. According to Spechler (1990), for much of this period, mercantilist writers argued that a key objective of trade should be to promote a favorable balance of trade. A "favorable" balance of trade is one in which the value of domestic goods exported exceeds the value of foreign goods imported. Trade with a given country or region was judged profitable by the extent to which the value of exports exceeded the value of imports, thereby resulting in a balance of trade surplus and adding precious metals and treasure to the country's stock. Scholars later disputed the degree to which mercantilists confused the accumulation of precious metals with increases in national wealth. But without a doubt, mercantilists tended to view exports favorably and imports unfavorably.

Even if the balance of trade was not a specific source of concern, the commodity composition of trade was (Ekelund and Robert, 1981). Exports of manufactured goods were considered beneficial, and exports of raw materials (for use by foreign manufacturers) were considered harmful; imports of raw materials were viewed as advantageous and imports of manufactured goods were viewed as damaging. This ranking of activities was based not only on employment grounds, where processing and adding value to raw materials was thought to generate better

employment opportunities than just extraction or primary production of basic goods, but also for building up industries that would strengthen the economy and the national defense.

Mercantilists advocated that government policy be directed to arranging the flow of commerce to conform to these beliefs. They sought a highly interventionist agenda, using taxes on trade to manipulate the balance of trade or commodity composition of trade in favor of the home country. But even if the logic of mercantilism was correct, this strategy could never work if all nations tried to follow it simultaneously. Not every country can have a balance of trade surplus, and not every country can export manufactured goods and import raw materials.

2.1.2 Theory of Absolute Advantage

There emerged many anti-mercantilist economic writers during this period, but few were as impressive as Adam Smith in his book "The Wealth of Nations" published in 1776. With this book, Smith fundamentally changed economic thinking about international trade. Smith argued that economic growth depended upon specialization and the division of labor. Specialization helped promote greater productivity—that is, producing more goods from the same resources, which is essential for achieving higher standards of living. According to Smith, the division of labor was limited by the extent of the market; in other words, small markets would not be able to support a great deal of specialization, whereas larger markets could. (A small town usually has fewer specialty shops than a large city.) Therefore, international trade effectively increased the size of the market for any given country, allowed for more refined specialization, created an international division of labor and thereby benefited all countries by increasing the world's productivity and output.

The theory made it clear that nations benefited more if they exported only what they could produce best and imported what they were not good at producing. The theory asserts that a country might be more efficient in the production of some commodities and less efficient in other commodities, relative to another nation. When a country is more efficient than another country in the production of a commodity, the country has absolute advantage in the production of that commodity.

2.1.3 Theory of Comparative Advantage

The knowledge body in international trade was reinforced by the classical economists writing in the first quarter of the nineteenth century. The theory of comparative advantage emerged during this period and strengthened our understanding of the nature of trade and its benefits. Ricardo (1817) has received most of the credit for developing this important theory, although James Mill and Robert Torrens had similar ideas around the same time.

According to Khan (1990), the theory of comparative advantage suggests that a country exports goods in which its relative cost advantage, and not their absolute cost advantage, is greatest in comparison to other countries. Suppose that the United States can produce both shirts and automobiles more efficiently than Mexico. But if it can produce shirts twice as efficiently as Mexico and can produce automobiles three times more efficiently than Mexico, the United States has an *absolute* productive advantage over Mexico in both goods but a *relative* advantage in producing automobiles. In this case, the United States might export automobiles in exchange for imports of shirts—even though it can produce shirts more efficiently than Mexico.

The practical import of the doctrine is that a country may export a good even if a foreign country could produce it more efficiently if that is where its relative advantage lies; similarly, a country may import a good even if it could produce that good more efficiently than the country from which it is importing the good. From Mexico's standpoint, it lacks an absolute productive advantage in either commodity, but has a relative advantage in producing shirts (where its relative disadvantage is least). This trade is beneficial for both the United States and Mexico.

The comparative advantage proposition is incredibly counterintuitive (Findlay, 1987): it states that a less developed country that lacks an absolute advantage in any good can still engage in mutually beneficial trade, and that an advanced country whose domestic industries are more efficient than those in any other country can still benefit from trade even as some of its industries facing intense import competition.

According to the theory, therefore, advantages are not absolute but are comparative. Comparing two countries on two products, each country will have a comparative advantage in one commodity and a comparative disadvantage in the other commodity, unless one country is equally efficient or inefficient in both commodities. Even if a country possessed absolute advantage in the production of two commodities, the country must still be relatively more

efficient in one commodity than the other. If each country specializes and trades in the commodity of its comparative advantage, both countries benefit.

2.2 Neo-Classical Theories of International Trade

The classical theories of international trade have been criticized on the grounds that they lack positive aspects in approach and are basically normative. According to Bhagwati (1960), classical theories reflect a welfare model designed to support the case for free trade rather than a positive model to explain the facts of trade. The basic criticism is that the theories are one sided and consider only the supply side of international trade. Porter (1998) believes that the above standard classical theories of international trade have fallen short of explaining sufficiently the current pattern of trade, especially since globalization set in.

2.2.1 Porter's Diamond Model

2.2.1.1 Background

With all the above classical theories at hand, Michael Porter at Harvard attempted to identify all various factors that could explain a nation's competitiveness. He conducted a four-year study of ten important trading nations and their internationally successful industries. The question of the research was "why does a nation become the home base for successful international competitors in certain industries?" Or, to put it somewhat differently, "why are firms based in a particular nation able to create and sustain competitive advantage against the world's best competitors in a particular field?"

Classical economists identified land, labour, capital and people as the fundamental factors of a nation's competitiveness. Porter (1998) argues that they cannot explain why firms based in particular nations are able to compete successfully internationally. Nor can they explain why a nation's firms are able to sustain their competitive positions over considerable periods of time. He cited the following examples to support his case:

Korea, after the Korean War, was left virtually without Capital, yet they were able to achieve substantial exports in a wide range of relatively capital intensive industries such as steel, ship building and automobiles; Germany, Switzerland and Sweden have prospered despite high wages and long spells of labour shortages. They are also not bountiful in natural resources; Japan, with an economy supposedly built on cheap and abundant labour has experienced pressing labour

shortages. Its firms have only succeeded internationally in many industries only after automating away much of their labour content.

The factors Porter found to explain international success and the creation of competitive advantage were linked into the now well-known diamond model on the competitive advantage of nations. The framework presents the major determinants of competitive advantage as well as how they interact with one another. The four determinants are factor conditions, demand conditions, related and supporting industries and the context for firm strategy and rivalry. Two exogenous factors, government and chance influence the functioning of these four major determinants.

2.2.1.2 Factor Conditions

Factor conditions refers to inputs used as factors of production - such as labour, land, natural resources, capital and infrastructure. This sounds similar to standard economic theory but Porter (1998) denotes two different distinctions within the determinant factor conditions. The first one deals with whether the factors are 'basic' (natural resources, climate, and location) or 'advanced' (modern digital data communications infrastructure, and highly educated personnel). The second distinction is built on 'specificity' and includes 'generalized factors' in the economy and 'specialized factors', most of which are relevant to a limited range or even to just a single industry. Porter argues that basic and generalized factors are either inherited or easy to create, whereas advanced and specialized factors are more decisive and a sustainable basis for competitive advantage as they are difficult to duplicate.

Porter (1998) further argues that a lack of resources often actually helps countries to become competitive. Abundance generates waste and scarcity generates an innovative mindset. Such countries are forced to innovate to overcome their problem of scarce resources. Switzerland was the first country to experience labour shortages. They abandoned labour-intensive watches and concentrated on innovative/high-end watches. Japan has high priced land and so its factory space is at a premium. This led to just-in-time inventory techniques. Sweden has a short building season and high construction costs. These two things combined created a need for pre-fabricated houses.

2.2.1.3 Demand Conditions

Regarding demand conditions, Porter (1998) argues that home demand has a considerable influence on competitive advantage. Firms that face a sophisticated domestic market are likely to sell superior products because the market demands high quality and a close proximity to such consumers enables the firm to better understand the needs and desires of the customers. An example is the French wine industry. The French are sophisticated wine consumers. These consumers force and help French wineries to produce high quality wines.

2.2.1.4 Related Supporting Industries

The existence of internationally competitive 'related and supporting industries' in a nation, according to Porter (1990), is an important determinant of the creation and sustainability of competitive advantage. This includes suppliers and related industries. This usually occurs at a regional level as opposed to a national level. The phenomenon of competitors (and upstream and/or downstream industries) locating in the same area is known as clustering or agglomeration. Their similarities may, for instance, foster technological spin-offs as well as joint research projects. It may also lead to an association of a region on the part of consumers with a product and high quality and therefore some market power, or an association of a region on the part of applicable labour force.

2.2.1.5 Context for Firm Strategy and Rivalry

Porter (1990) denotes the fourth broad determinant as including the strategies and structures of firms as well as the nature of domestic rivalry. He believes that there should be a good fit between an industry's sources of competitive advantage plus its structure, and the strategies, structures and practices favoured by the national environment. The existence of intense domestic rivalry, on the other hand, is of special importance since, for instance, it encourages firms in the industry to break the dependence on basic factor advantages. Porter thinks that the roles played by the government and chance in the competitive development of an industry are important but indirect, mainly through influencing the four major determinants of competitive advantage. In his view, in the complete framework each determinant is influenced by the others, turning the system into a dynamic one. It is, in fact, this systemic nature that makes it difficult to replicate the exact structure of the industry in another country.

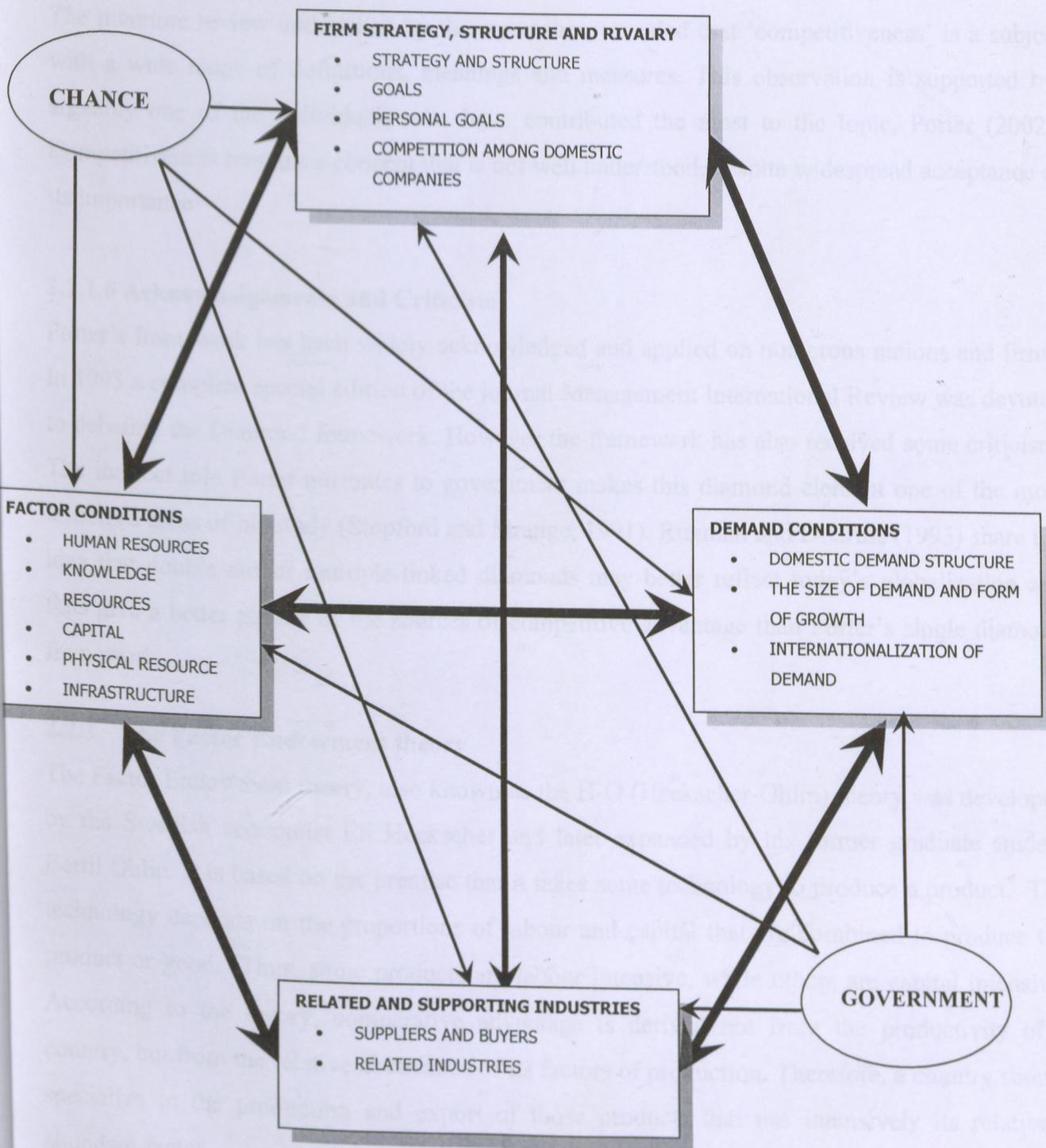


Figure 1: Porter's Diamond Model for the Competitive Advantage of Nations

Source: Rugman & D'Cruz (1993) "The Double Diamond Model of International Competitiveness: The Canadian Experience". *Management International Review* 33(2):p18

The literature review undertaken by the researcher, revealed that 'competitiveness' is a subject with a wide range of definitions, meanings and measures. This observation is supported by, arguably one of the individuals who have contributed the most to the topic, Porter (2002): Competitiveness remains a concept that is not well understood, despite widespread acceptance of its importance.

2.2.1.6 Acknowledgements and Criticism

Porter's framework has been widely acknowledged and applied on numerous nations and firms. In 1993 a complete special edition of the journal *Management International Review* was devoted to debating the Diamond framework. However the framework has also received some criticism. The indirect role Porter attributes to government makes this diamond element one of the most criticized areas of his study (Stopford and Strange, 1991). Rugman and D'Cruz, (1993) share the idea that double and/or multiple-linked diamonds may better reflect today's globalization and thus give a better picture of the sources of competitive advantage than Porter's single diamond framework.

2.2.2 The Factor Endowment theory

The Factor Endowment theory, also known as the H-O (Heckscher-Ohlin) theory was developed by the Swedish economist Eli Heckscher and later expanded by his former graduate student Bertil Ohlin. It is based on the premise that it takes some technology to produce a product. The technology depends on the proportions of labour and capital that are combined to produce the product or good. Thus, some products are labour intensive, while others are capital intensive. According to the theory, comparative advantage is derived not from the productivity of a country, but from the relative abundance of its factors of production. Therefore, a country should specialize in the production and export of those products that use intensively its relatively abundant factor.

2.2.3 Economies of Scale and Imperfect Competition

Krugman (1996) developed a theory to explain how trade is altered when markets are not perfectly competitive and productions of specific products possess economies of scale. The firm can produce more to lower cost per unit and price in order to sell more. Firms in related industries which can not enjoy economies of scale are forced into extinction, thereby releasing resources such as share capital which the expanding firm can use for its expansion.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study used the survey research design. This offered the researcher wide coverage of the population of study to facilitate comparisons as well as being financially economical, given the wide geographic coverage of the population of study. Mugenda and Mugenda (1999) observe that survey research is used for exploring existing status of two or more variables at a given point in time.

3.2 Population

All the registered members of the Kenya Flower Council (KFC) formed the population of the study. The KFC had 49 members registered as exporters of cut flowers as at August 11, 2007 as per <http://www.kenyaflowers.co.ke/members/membership.php> online document accessed on August 11, 2007

3.3 Sampling Design

A list of the registered members of the Kenya Flower Council (KFC) formed the sampling frame, from which a representative sample of 30 was drawn. The stratified random sampling technique was used to draw the sample. The population was divided into strata based on geographic concentration.

3.4 Data Collection

Primary and secondary data was sought in this study. Primary data was gathered with the help of a structured questionnaire targeting the Kenya Flower Council registered members. Part A of the questionnaire gathered the firms' general information while part B focused on the determinants of national competitiveness as per Porter's Diamond model. Largely, the drop and pick method was used but a few questionnaires were e-mailed to respondents. The questionnaire has been used in similar studies such as Aosa (1992) Karemu (1993), Kiruthi (2001) and Muthuri (2001). Secondary data on world trends in flower acreage, export market share by country and the future of the industry was collected from the floriculture-related bodies within and without Kenya, the Kenya Bureau of Statistics and the Ministry of Agriculture.

3.5 Data Analysis CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

The questionnaires were edited for completeness and consistency. Quantitative data was analyzed using percentages, mean scores and standard deviations so as to facilitate and enable comparison. Content analysis was used for the analysis of qualitative data. In some situations, frequency tables were used for presentation. A frequency table shows the distribution of scores in a sample for a specific variable (Mugenda and Mugenda, 1999).

4.1 Secondary data on Kenya Flowers' competitiveness in the global market

The first objective of this study was to determine how competitive Kenya's flowers are in the world market. Secondary data was collected for this objective from various sources, including international business journals, bureaus of statistics, past local newspapers, the Horticultural Crops Development Authority (HCDA) in Kenya and the Kenya Flower Council (KFC). The findings are presented here below.

According to *Flowers* (2005), the cut flowers world market is a \$3.7 billion market dominated by Netherlands which accounted for about 54% of exports in 2005. The other top exporters are Colombia (10%), Ecuador (8%) and Kenya (6%). The main import destinations for cut flowers are the European Union (EU) countries. Although Kenya currently accounts for only 6% of world cut flower exports, it has exhibited the fastest growth among top cut flower exporters in the world since 2001 (2005). Kenya's cut flower exports grew at a compounded rate (CAGR) of 24%.

Cut flower production in Africa is highly competitive to any professional grower in the world. Especially with regard to the European growers the competition is becoming fierce. Kenya's cut flower exports is dominant among other sub-Saharan Africa flower exporters. In 2005, Kenya's flower exports were about 267 EUR millions which was over 2.6 times greater than the combined exports of its next 6 competitors in sub-Saharan Africa. Nowadays Kenya is the second largest cut flower grower, followed by Zimbabwe, Morocco and South Africa. Other emerging suppliers of the market are Zambia, Malawi, Tanzania and Uganda. Kenya has led the

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

This chapter contains summaries of data findings together with their interpretation. The chapter is divided into two broad sections and several sub sections. The first broad section deals with secondary data on the competitiveness of Kenya's flowers in the global market while the second section analyses primary data on floricultural firms obtained by use of questionnaires. Within the second broad section there are subsections analyzing general information about flower firms and the determinants of the sustained national competitiveness, which include demand conditions, factor conditions, government policies, supporting industries, market structure and corporate strategy.

4.1 Secondary data on Kenyan flowers' competitiveness in the global market

The first objective of this study was to determine how competitive Kenya's flowers are in the world market. Secondary data was collected for this objective from various sources, including international business journals, bureaus of statistics, past local newspapers, the Horticultural Crops Development Authority (HCDA) in Kenya and the Kenya Flower Council (KFC). The findings are presented here below.

According to Wijnands (2005), the cut flowers world market is a \$5.7 billion market dominated by Netherlands which accounted for about 54% of exports in 2005. The other top exporters are Colombia (16%), Ecuador (6%) and Kenya (6%). The main import destinations for cut flower exports are to European Union (EU) countries. Although Kenya currently accounts for only 6% of world market share, it has exhibited the fastest growth among top cut flower exporters in the world. From 2001-2005, Kenya's cut flower exports grew at a compounded rate (CAGR) of 27%.

Cut-flower production in Africa is highly competitive to any professional grower in the world. Especially with regard to the European growers the competition is becoming fierce. Kenya's cut flower cluster is dominant among other sub-Saharan Africa flower exporters. In 2005, Kenya's flower exports were about 267 EUR Millions which was over 2.6 times greater than the combined exports of its next 6 competitors in sub-Saharan Africa. Nowadays Kenya is the largest African cut-flower grower, followed by Zimbabwe, Morocco and South Africa. Other promising countries on the market are Zambia, Malawi, Tanzania and Uganda. Kenya has led the

expansion in floriculture in East Africa in the last 20 years. Between 1995 and 2002, Kenyan flower and horticultural export earnings both grew by more than 300%, in a period when overall export growth was only 40 %.(Riungu 2007)

Kenya's policy to permit expatriate technical staff to work in the country has enabled it to bridge the gap and develop local capacities. Green house managers are typically from Europe, Israel and India, although the number of Kenyan managers is increasing. The managers are also supported by international consultants who transfer good practices from one operation to another. (Wijnands 2005)

Most imports into the EU originate in other European countries, although the share of developing countries is growing rapidly. The main non-EU suppliers of the EU are Israel, Kenya and Colombia. Imports from Ecuador and Kenya increased rapidly between 1995 and 2005 compared to those of Colombia (table 4.1)

Table 4.1: Selected Countries' Flower Exports into the European Union

	Average export (1,000 USD) in 1995/1996	Average export (1,000 USD) in 2004/2005	Absolute Growth (1,000 USD) in 1995 - 2005
Colombia	562,719	734,633	171,914
Ecuador	123,286	351,705	228,419
Kenya	107,343	325,621	218,278
Thailand	73,159	63,154	(10,005)
Zimbabwe	54,967	48,548	(6,419)
Malaysia	12,204	45,228	33,024
Costa Rica	23,779	31,920	8,141
Uganda	3,841	27,787	23,946
China	1,037	27,308	26,271
South Africa	14,079	25,512	11,433
Turkey	14,348	22,644	8,296
Zambia	7,279	17,847	10,568
Mexico	20,932	17,217	(3,715)
Tanzania	5,130	14,901	9,771
India	6,260	9,894	3,634
Peru	6,453	6,881	428
Brazil	1,821	6,506	4,685
Guatemala	10,716	5,697	(5,019)
Poland	331	4,750	4,419
Chile	2,723	4,328	1,605
Côte d'Ivoire	2,168	4,227	2,059
Morocco	16,355	3,703	(12,652)
Mauritius	6,435	2,819	(3,616)
Dominican Rep	1,788	2,569	781
Cameroon	164	1,973	1,809
Indonesia	459	1,890	1,431
Egypt	457	1,648	1,191
Sri Lanka	565	1,115	550
Malawi	3,045	354	(2,691)
Bolivia	1,090	34	(1,056)

Source: Wijnands J. (2005) "Sustainable International Networks in the Flower Industry" Scripta Horticulturae - A publication of the International Society for Horticultural Science, The Hague, Belgium October 2005 Number 2 p92

4.2 Primary data on Kenya's flower firms

The second objective of this study was to determine whether the competitiveness of Kenya's flower industry can be explained by factor conditions, local demand conditions, related and supporting industries, sound corporate and marketing strategies by flower firms and government support. Primary data was collected by use of questionnaires distributed to flower firms. The questionnaires targeted the above conditions with regard to availability, quality, pricing, deliberate strategy formulation around the factors and the perception by the flower firms of the factors' contribution to their success.

A total of thirty (30) questionnaires were distributed to the respondents, out of which twenty-three (23) responded by completing and returning the questionnaires. Seven (7) did not respond. This gave a response rate of 77% and a non-response rate of 23%. The high rate of response was enough to validate the sample for the study. The questionnaires were edited for completeness and consistency and data analyzed using percentages, mean scores and standard deviations so as to facilitate and enable comparison. The findings are presented and analyzed in the tables below.

4.2.1 General Information

The general information considered in the study included the duration of operation in Kenya, ownership structure, physical output volume, sales volume and sales growth in the five years.

The table below shows the results:

4.2.1.1 Duration of Operation in the Industry

The respondents were to indicate for how long their organizations had been in operation in Kenya.

Table: 4.2.1.1: Duration of Operation in the Industry

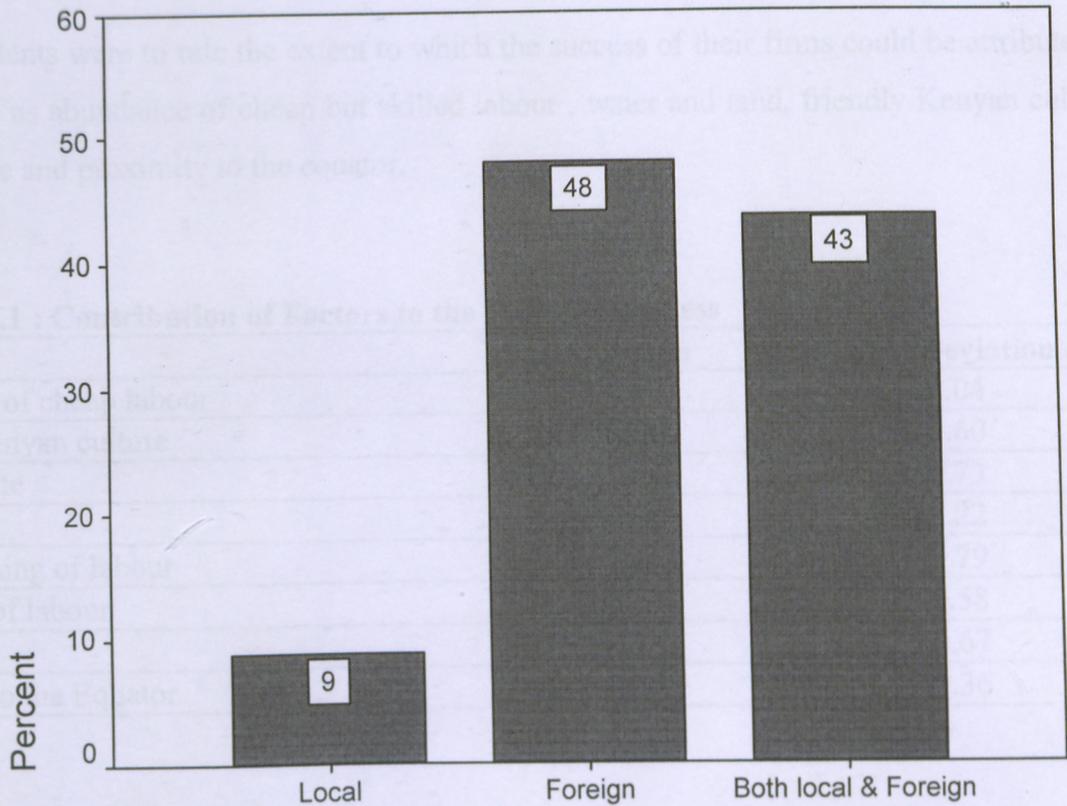
	Frequency	Percent
1-3 years	5	21.74
4 -5 years	6	26.09
6-10 years	7	30.43
Over 10 years	5	21.74
Total	23	100

The findings indicate that 30% of the firms had been in operation in Kenya for between, 6 – 10 years, 26% for between 4 – 5 years, 21% for between 1 – 3 years and over 10 years. This shows that majority of the floricultural firms had been in operation in Kenya for more than 4 years.

4.2.1.2 Ownership Structure

The respondents were to indicate the ownership structure of their firms.

Figure 2: Ownership Structure



Ownership Structure

From the findings, foreigners owned 48% of the firms, 43% owned by both the locals and foreigners while the locals purely owned only 9% of the firms. The results indicate that foreigners owned majority of these firms.

4.2.2 Determinants of Sustained National Competitiveness

4.2.2.1 Factor Conditions

Factor conditions refer to inputs used as factors of production - such as labour, land, natural resources, capital and infrastructure. Porter (1998) denotes two different distinctions within the determinant factor conditions. The first one deals with whether the factors are 'basic' (natural resources, climate, and location) or 'advanced' (for example highly educated personnel). Porter argues that basic factors are either inherited or easy to create, whereas advanced factors are more decisive and a sustainable basis for competitive advantage as they are difficult to duplicate.

The respondents were to rate the extent to which the success of their firms could be attributed to factors such as abundance of cheap but skilled labour, water and land, friendly Kenyan culture, good climate and proximity to the equator.

Table 4.2.2.1 : Contribution of Factors to the Industry Success

	Mean	Std. Deviation
Abundance of cheap labour	4.22	1.04
Friendly Kenyan culture	4.09	0.60
Good climate	4.09	0.73
Water	3.96	1.22
Skills/Training of labour	3.52	0.79
Education of labour	3.17	0.58
Land	2.91	0.67
Proximity to the Equator	2.87	1.36

From the findings the success of the firms were highly attributed to abundance of cheap labour (4.22), friendly Kenyan culture (4.09) and good climate (4.09), availability of water (3.96), training and highly educated labour force (3.52 and 3.17 respectively). Availability of land and proximity to the equator contributed to the success of the firms to a moderate extent. The standard deviations were relatively low indicating that most of the respondents were in close agreement.

4.2.2.2 Demand Conditions

Regarding demand conditions, Porter (1998) argues that home demand has a considerable influence on competitive advantage. Firms that face a sophisticated domestic market are likely to sell superior products because the market demands high quality and a close proximity to such consumers enables the firm to better understand the needs and desires of the customers. The respondents were to rate various demand conditions in relation to their firms in a five point Likert scale.

Table 4.2.2.2: Demand Conditions

	Mean	Std. Deviation
The proportion of your local sales to your total sales	2.00	0.85
The level of sophistication/complexity of your local demand	2.00	1.13
The proportion of your local sales to your total sales	1.96	0.93
The bargaining power of your local demand	1.91	1.12
Local demand situation	1.74	1.05

The findings indicate that, the demand conditions were significant to a small extent: the proportion of the local sales to the firms' total sales (2.00), the level of sophistication/complexity of the local demand (2.00), the proportion of the firms' local sales to the firms' total sales (1.96), the bargaining power of the firms' local demand (1.91) and local demand situation (1.74). The standard deviations were relatively low indicating that most of the respondents were in close agreement.

4.2.2.3 Related and Supporting Industries

The existence of internationally competitive 'related and supporting industries' in a nation, according to Porter (1990), is an important determinant of the creation and sustainability of competitive advantage. This includes suppliers and related industries. This usually occurs at a regional level as opposed to a national level.

The respondents were to rate the extent to which collaboration with local supporting organizations contributed to their success.

Table 4.2.2.3: Collaboration with Local Supporting Organizations

	Mean	Std. Deviation
Financial institutions	4.30	0.56
Local suppliers	4.26	0.62
Learning institutions such as universities	3.96	0.77
Insurance companies	3.87	0.69
Peer firms/competitors	3.74	0.54
Research and Development Institutions	3.74	0.69
Trade unions	3.39	0.78

From the findings collaboration with financial institutions (4.30), Local suppliers (4.26), learning institutions such as universities (3.96), Insurance companies (3.87), Peer firms/competitors (3.74) and Research and Development Institutions (3.74) highly contribute to the success of the firms, which trade unions (3.39) contributed to a moderate extent. The standard deviations were relatively low indicating that most of the respondents were in close agreement.

4.2.2.4 Firm Strategy and Rivalry

Porter (1990) believes that there should be a good fit between an industry's sources of competitive advantage plus its structure, and the strategies, structures and practices favoured by the national environment. The existence of intense domestic rivalry, on the other hand, is of special importance since, for instance, it encourages firms in the industry to break the dependence on basic factor advantages.

4.2.2.4.1 Firms' Engagement in Business Strategy

Table 4.2.2.4.1: Firms Engagement in Strategies that Promote Business

	Mean	Std. Deviation
Product packaging	4.48	0.59
Image of firm internationally	4.43	0.73
Product range	4.35	0.49
Marketing Research	4.30	0.56
Choice of market segments	4.30	0.63
Personnel training systems	4.22	0.67
Product range	4.17	0.78
Advertising	4.17	0.98
Explicit PR strategy	4.13	0.55
Marketing innovation	4.09	0.67
Management of change	4.00	0.80
People involvement	3.96	1.11

From the findings, flower firms engaged in strategies that promote business to a large extent, this included product packaging (4.48), image of firm internationally (4.43), product range (4.35), marketing research (4.30), choice of market segments (4.30), personnel training systems (4.220, product range (4.17), advertising (4.17), explicit PR Strategy (4.13), marketing innovation (4.09), management of change (4.00) and people involvement (3.96). The standard deviations were relatively low indicating that most of the respondents were in close agreement.

4.2.2.4.2 Rivalry Within the Industry

Table 4.2.2.4.2: Rivalry within the Industry

	Mean	Std. Deviation
There are many players in the industry	4.74	0.45
International competition is stiff	3.87	1.06
Your market share is high	3.78	0.80
Market access is difficult	3.43	0.95
There are many entry barriers to competitors	3.35	0.71
There is intense competition locally	3.13	1.14

From the findings to a large extent there were many players in the industry (4.74), international competition was stiff (3.87) and the market share of the floricultural firms market share was high (3.78). On the other hand, to a moderate extent market access is difficult (3.43), there ere many entry barriers to competitors (3.35) and there was intense competition locally (3.13). The standard deviations were relatively low indicating that most of the respondents were in close agreement.

4.2.2.5 Government Policies

The government plays an important role in Porter's diamond model. Porter (1998) argues that there are some things that governments do that they shouldn't, and other things that they do not do but should. Government's proper role is as a catalyst and challenger; it is to encourage - or even push - companies to raise their aspirations. The respondents were to rate the extent to which the government had been supportive to their business through its policies.

Table 4.2.2.5: Government Policies

	Mean	Std. Deviation
Government policy on taxes	4.22	1.09
Government policy on infrastructure	3.96	1.07
Government policy on industry regulation	3.57	0.90
Government as a client, investor or intervener	3.48	0.90
Government policy on business start-up	3.30	1.02
Government as advertising agent internationally	3.13	1.14
Government policy on protectionism	3.04	0.56
Government policy on human resources	2.96	0.47
Government policy on demand stimulation	2.91	0.79
Political environment	2.87	0.92
Government policy on Science & Technology	2.74	0.81

The government policies considered supportive to the firms included, Government policy on taxes (4.22), Government policy on infrastructure (3.96), Government policy on industry regulation (3.57), Government as a client and investor or intervener (3.48). Other policies considered moderately supportive included Government policy on business start-up (3.30), Government as advertising agent internationally (3.13), Government policy on protectionism (3.04), Government policy on human resources (2.96), Government policy on demand stimulation (2.91), Political environment (2.87) and Government policy on Science & Technology (2.74). The standard deviations were relatively low indicating that most of the respondents were in close agreement.

CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

This is the final chapter of the study. It highlights the summary, discussions, conclusions, suggestions and recommendations for policy and practice and further studies.

5.1 Summary, Discussions and Conclusions

The first objective of this study was to determine how competitive Kenya's flowers are in the world market. Kenya has now become the largest producer in Africa and the leading supplier to Europe. She produces approximately \$200 million in cut flowers and foliage annually. Nearly all of it is exported, with 94% of the exports going to the European Union. The latest figures released by the Kenya Flower Council (KFC) show that the country's flower exports now control 32% of the European Union market, consolidating the lead Kenya achieved in 2000 after edging out Israel and Columbia. Kenya's policy to permit expatriate staff to work in the country has enabled bridge the technological gap with her more advanced competitors. Green house managers are typically from Europe, Israel and India. From the foregoing literature, Kenya's flowers are certainly competitive in the global market, commanding 32% of the European Union flower market. This is larger than what six of the next sub-Saharan countries command, all put together.

The second objective of this study was to determine whether the competitiveness of Kenya's flower industry can be explained by factor conditions, demand conditions, related supporting industries, firm strategy and rivalry and government support. Porter (1990) linked the above factors together into the now well known competitive advantage of nations model. From the findings most of the floricultural firms had been in operation in Kenya for more than 4 years and most of them are mainly foreign owned. This explains the maturity with which they operate, borrowing heavily on expertise, strategy formulation and implementation from Europe, Israel and America. Almost all of the sampled firms engaged in strategies that promote business to a large extent; this included product packaging, promotion of image of the firm internationally, marketing research, choice of market segments, personnel training systems, product range, advertising, explicit PR Strategy, marketing innovation, management of change and involvement of people in running business. Porter (1990) denotes this as one of the broad determinants of national competitiveness. He believes that there should be a good fit between an

industry's sources of competitive advantage plus its structure, and the strategies, structures and practices favoured by the national environment.

The main inputs were readily available; these included labour, seeds/ seedlings, fertilizers, water, electricity, and packaging materials, except for the availability of land that was rated moderate. The average pricing for land, electricity, fertilizer, packaging materials and seedlings were rated as high while the average pricing of water and labour was moderate. The findings further indicated that the quality of land, fertilizer, seeds/ seedlings, packaging materials and electricity was high. Porter (1998) denotes two different distinctions within the determinant factor conditions. The first one deals with whether the factors are 'basic' (natural resources, climate, and location) or 'advanced' (modern digital data communications infrastructure, and highly educated personnel). The second distinction is built on 'specificity' and includes 'generalized factors' in the economy and 'specialized factors', most of which are relevant to a limited range or even to just a single industry. Porter argues that basic and generalized factors are either inherited or easy to create, whereas advanced and specialized factors are more decisive and a sustainable basis for competitive advantage as they are difficult to duplicate. The respondents were in agreement that though the labour in the industry was readily available and fairly priced, it is highly skilled and trained. Kenya's policy to permit expatriate staff to work in the country has helped build capacity that may be difficult to replicate among many African countries.

The findings also indicated that, the demand conditions were significant to the success of the floricultural industry only to a small extent. This was indicated by the low proportion of the local sales to the firms' total sales and the low level of sophistication/complexity of the local demand. According to Porter (1998), home demand has a considerable influence on competitive advantage. Firms that face a sophisticated domestic market are likely to sell superior products because the market demands high quality and close proximity to such consumers enables the firm to better understand the needs and desires of the customers. Clearly, Kenya does not enjoy this kind of advantage as its local demand for cut flowers is way below expectation, implying that its competitiveness stands to improve when and if local demand gets to acceptable standards.

Porter (1998) thinks that the roles played by the government and chance in the competitive development of an industry are important but indirect, mainly through influencing the four major determinants of competitive advantage. From the findings, the government policies considered

supportive to the firms included, government policy on taxes, government policy on infrastructure, government policy on industry regulation, government as a client and investor or intervener. Other policies considered moderately supportive included government policy on business start-up, government as advertising agent internationally, government policy on protectionism, government policy on human resources, government policy on demand stimulation, political environment and government policy on science and technology.

From the findings to a large extent there were many players in the industry, international competition was stiff and the market share of the floricultural firms' market share was high. On the other hand, to a moderate extent market access was difficult, there were many entry barriers to competitors and there was intense competition locally. The existence of intense domestic rivalry is of special importance since, for instance, it encourages firms in the industry to break their dependence on basic factor advantages. The firms' collaboration with financial institutions, local suppliers, learning institutions such as universities, insurance companies, peer firms/competitors and Research and Development Institutions highly contributed to the success of the firms.

From the foregoing the competitiveness of Kenya's flower industry can be attributed to factor conditions, especially the main inputs of labour, water, electricity, packaging materials and to a small extent the availability of land. The friendly Kenyan culture and good climate, government policy, collaboration with financial institutions, local suppliers, learning institutions such as universities, insurance companies, peer firms/competitors and Research and Development Institutions highly contributed to the success of the flower firms. Their deliberate involvement in marketing and corporate strategies has had its share of contribution to this success.

5.2 Limitation of Study

The study mainly focused on the 49 exporters of cut flowers registered with the Kenya Flower Council (KFC) as at August 11, 2007 and therefore cannot be used to generalize the factors influencing global competitiveness in other flower firms who are not registered with KFC. The researcher's sample concentrated on firms around the main flower zones of Naivasha, Thika, and Nairobi.

5.3 Recommendation for Further Research

The study mainly focused on the 49 exporters of cut flowers registered with the Kenya Flower Council (KFC) as at August 11, 2007. Future studies, however should be carried out in all parts of Kenya and the sampling frame cast wider to include non KFC member flower firms as this would better represent the overall floricultural industry.

Although government policies were generally considered supportive to the flower firms, it was evident from the primary data collected that the flower firms felt the government was wanting in the areas of policy on business start-up and investor protection. A number of the sampled firms had already set in motion strategies to move their key operations to Ethiopia, citing a better investment environment. A study comparing the investment climates in Kenya and Ethiopia would help identify gaps in government policy on investors and their impact on the investment strategies in flower firms.

There are many flower firms concentrated around Lake Naivasha on account of its water supply. But with the expansion of the 4,000-acre flower farming sector on the lake, the population around the lake has grown in the past 20 years from about 7,000 to about 300,000. There is no legal framework guiding the use of water from Lake Naivasha. This is a serious threat not only to the flower firms but also to the lake itself. A study into the relationship between the lake and the flower firms would help the government come up with a legal framework guiding the use of the lake's water in the light of the increasing population of flower firms around it.

5.4 Recommendation for Policy and Practice

From the findings, it is clear that other countries in the same global location and with similar climatic conditions as Kenya such as Uganda, Tanzania and Rwanda have something to learn about factors driving the floricultural industry's national competitiveness. A friendly culture towards foreign investors, more support from local organizations such as financial institutions, insurance companies and suppliers of key inputs should be nurtured and encouraged. The government should be as supportive as possible in marketing flowers abroad and in engaging in Research and Development activities. It is important for flower firms to deliberately involve themselves in marketing and corporate strategies aimed at increasing their global market share.

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APPENDICES

APPENDIX I : SAMPLE LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS STUDIES
DEPARTMENT OF BUSINESS ADMINISTRATION
MBA PROGRAMME-LOWER KABETE CAMPUS

Tel:

P.O.Box 30197

Nairobi, Kenya.

DATE.....

TO WHOM IT MAY CONCERN

The bearer of this letter.....

Registration No.....

is a Master of Business Administration student at the University of Nairobi. He is conducting a survey to establish reasons for Kenya's sustained competitiveness in the Floricultural industry: A test of Porter's competitive advantage of nations model. This information is purely for academic purposes and a copy of the findings will be availed to you upon request. Any information received will be treated with strict confidentiality and at no point will your name or that of your organization be mentioned in the final report.

Your cooperation will be highly appreciated.

Thank you.

Dr Martin Ogutu.

APPENDIX II : KENYA FLOWER COUNCIL MEMBERS

Company	Contact Person	Physical Address
Aquila Dev. Co. Ltd	Mr. Jayaraj Govindarajan	P. O. Box 66743 - 00800 Nairobi P. O. Box 357 Naivasha
Bawan Roses Ltd	Betty Ann Mboche	P. O. Box 46037 Nairobi P. O. Box 235 Thika
Beverly Flowers Ltd	Mr. M. Kabuyah	P. O. Box 53836 Nairobi
Bondet Limited	Mr. Andrew Fernandes	P.O Box 1076 Nanyuki
Charm Flowers Ltd	Mr. Ashokkumar Patel	P. O. Box 42417 Nairobi
Countrywide Connections Ltd	Mr. Richard Fernandes	P.O Box 1076, Nanyuki -10400
Elbur Flora Ltd	Mr. Peter Kairu	P. O. Box 54 Elburgon
Enkasiti Flowers Ltd	Mr. Biju Varghese	P. O. Box 50315 Nairobi
Finlay Flowers Ltd	Mr. Chris Mclean	P. O. Box 1966 Kericho
Florema (K) Ltd	Peter Maina	P. O. Box 124 - 20117 Naivasha
Four Ten Investments Co. Ltd.	Mr. Homer Combos	P. O. Box 42480 - 00100 Nairobi
Hamer (K) Ltd	Mr. Peter Bresser	P. O. Box 1896 Naivasha
Hamwe Ltd	Mr. Richard Fernandes	P.O. Box 791-20117 Naivasha
Homegrown Ltd	Mr. Rod Evans	P. O. Box 10222 - 00400
Isinya Flowers	Mr. Rajesh P. Dave	P. O. Box 18436 - 00500 Nairobi
Kariki Ltd	Mr. Richard Fernandes	P.O Box 6038-00100 Thika
Kenya Highlands Nurseries	Mr. Nathani Susan	P. O. Box 3474 Nakuru
Kreative Roses	Mr. Bas Smit	P. O. Box 868-00502 Nairobi
Kisima Ltd	Mr. Ivan Freeman	P. O. Box Private Bag, Nanyuki
Kudenga Limited	Mr. Richard Fernandes	P. O. Box 955 -20106 Molo
Lobelia Farms Limited	J. P. Viljoen	P. O. Box 227 TIMAU-60203
Longonot Horticulture Ltd	Mr. Umang Patel	P. O. Box 1271 Naivasha P. O. Box 32931 Nairobi
Liki River Farm	Mr. Umang Patel	P. O. Box 32931 Nairobi
Magana Flowers	Santosh Gholkar	P. O. Box 14618 Nairobi
Matasia Valley Roses	Mr. Kephlar Lenein Tende Mr. George Omondi-Farm Manager	P.O Box 62677-00200 Nairobi
Mosi Ltd	Mr. Morris Wahome	P. O. Box 39399-00623 Nairobi

Mt. Elgon Flowers Ltd	Mr. Bob Anderson	P. O. Box 124 Kitale
Mweiga Growers Limited	Mr. David Wachira	P.O Box 1017 Nyeri
Nini Ltd	Mr. Mike Higgins	P. O. Box 569 Naivasha
Ol-Njorowa Ltd	Mr. Paris Issaias	P. O. Box 18156 - 00500 Nairobi P. O. Box 879 Naivasha
Oserian Dev. Co. Ltd	Mr. Ron Fasol	P. O. Box 43340, Nairobi P. O. Box 209 Naivasha
PJ Dave Flower Ltd	Mr. P. J. Dave	P. O. Box 18436 Nairobi
Pollen Limited	Mr. Iain Morrell	P. O. Box 1037 Ruiru
Primarosa Flowers Ltd	Mr. Naren Patel	P. O. Box 540 Athi River
Redlands Roses	Mrs. I. Spindler	P. O. Box 10 Ruiru
Sande (K) Ltd	Mrs. Colete Groenewegen	P. O. Box 709 Village Market
Shalimar Flowers (K) Ltd	Dennis Wedd	P. O. Box 781 Naivasha
Sian Roses	Ms. E Kimani	P. O. Box 15139-00509 Nairobi
Simbi Roses	Mrs. Nyachae / Mr Karue	P. O. Box 769 Thika
Subati Ltd	Mr. Homer Combos	P. O. Box 42480-00100 Nairobi
Suera Flowers Ltd	Mr. E Mureithi	P. O. Box 62599 Nairobi
The Plant Factory (K) Ltd	Mr. Peter Maina	P. O. Box 1739 Naivasha
Terra Fleur Ltd	Mr. Tiku Shah	P. O. Box 1092 Thika
Terrasol Ltd	Mr. S. Nannes	P. O. Box 63276 Nairobi
Tambuzi Ltd	Mrs. Maggie Hobbs	P. O. Box 1148 Nanyuki
Valentine Growers Co. Ltd	Mr. Eliud Njenga	P. O. Box 18755 Nairobi
Waridi Ltd	Mr. Jeremy Mott	P. O. Box 19294 Nairobi
Wildfire Ltd	Ct. Peter Szapary	P. O. box 379 Naivasha
Windsor Flowers	Mr. D.F Shah	P. O. Box 746 Thika

APPENDIX III : QUESTIONNAIRE

QUESTIONNAIRE

RESPONSE GUIDE: Most questions request responses on a scale ranging from 1 to 5 but note that the scales vary from item to item, as indicated. **Be sure to CIRCLE or TICK your answer** on the scale, noting that where applicable, 1 indicates one extreme end of the choices (for example very low or I totally disagree) while 5 indicates the other extreme of the choices (for example very high or I totally agree).

PART A: GENERAL INFORMATION

Please enter your details below:

Name of Respondent: _____ (Optional)

Designation of Respondent: _____

GENERAL QUESTIONS ON THE FIRM:

1. Please indicate the name of your organization _____

2. For how long have you been in operation in this industry in Kenya?

Less than 1 year []

1-3 years []

4-5 years []

6-10 years []

Over 10 years []

3. What is the ownership structure of your company

Local []

Foreign []

Both local and foreign []

4. What was your physical output volume (tonnes) in 2006/2007?

5. What was your volume of sales in 2006/2007 in Ksh?

6. How have your sales grown in the last five years?

2007 vs. 2006 _____ % (based on half year performance)

2006 vs. 2005 _____ %

2005 vs. 2004 _____ %

2004 vs. 2003 _____ %

2003 vs. 2002 _____ %

PART B: DETERMINANTS OF SUSTAINED NATIONAL COMPETITIVENESS

7. DEMAND CONDITIONS

Very low

Very high

	1	2	3	4	5
What is the proportion of your local sales to your total sales?					
How would you describe the local demand situation?					
How would you rate the bargaining power of your local demand?					
How would you describe the level of sophistication/complexity of your local demand					

8. Which local consumers do you target? (Homes, retail outlets, functions.)

9. What would you say are the determinants of local demand for your products? (Seasons, or festivities)

SUPPLY CONDITIONS

10. List your main inputs in business (such as labour, electricity and water)

	1	2	3	4	5
Land					
Labour					
Electricity					

11. What is the availability of your main inputs like?

Very scarce 1 2 3 4 5 Readily available

	1	2	3	4	5
Land					
Labour					
Electricity					
Water					
Seeds/Seedlings					
Packaging materials					
Fertilizer					
Others(please specify)					
.....					
.....					
.....					

12. What would you say about the average pricing of your main inputs?

Very low 1 2 3 4 5 Very high

	1	2	3	4	5
Land					
Labour					
Electricity					
Water					
Seeds/Seedlings					
Packaging materials					
Fertilizer					
Others(please specify)					
.....					
.....					
.....					

14. What would you say about capital in your industry?

Very low

Very high

Requirement to start business

1 2 3 4 5

Availability

1 2 3 4 5

Cost of capital

1 2 3 4 5

Bargaining power of financiers

1 2 3 4 5

15. What would you say the bargaining power of your suppliers is vis-à-vis yours?

Very weak

1 2 3 4 5

Very strong

13. What is the quality of your main inputs?

Very low 1 2 3 4 5 Very high

	1	2	3	4	5
Land					
Labour					
Electricity					
Water					
Seeds/Seedlings					
Packaging materials					
Fertilizer					
Others(please specify)					
.....					
.....					
.....					

13. Please indicate the characteristics of your labour force.

14. What would you say about capital in you industry.

	Very low				Very high
Requirement to start business	1	2	3	4	5
Availability	1	2	3	4	5
Cost of capital	1	2	3	4	5
Bargaining power of financiers	1	2	3	4	5

15. What would you say the bargaining power of your suppliers is vis-à-vis yours?

Very weak 1 2 3 4 5 Very strong

16. Please indicate the price/quality ratio of the following services to your firm.

	Very Low					Very High
Electricity	1	2	3	4	5	
Water	1	2	3	4	5	
Rent	1	2	3	4	5	
Telephone	1	2	3	4	5	
Domestic Transport	1	2	3	4	5	
Airport services	1	2	3	4	5	

GOVERNMENT POLICIES

FACTOR CONDITIONS

17. Average number of employees in 2006/2007 (Please circle the applicable range)

- i. Less than 100 []
- ii. 100 – 200 []
- iii. 200 – 300 []
- iv. Over 300 []

18. Please indicate the characteristics of your labour force.

	Very low					Very high
Proportion of casual labour to total	1	2	3	4	5	
Wages and salaries	1	2	3	4	5	
Education	1	2	3	4	5	
Skills/Training	1	2	3	4	5	
Availability	1	2	3	4	5	
Bargaining power	1	2	3	4	5	
Others (Please specify)						
_____	1	2	3	4	5	
_____	1	2	3	4	5	
_____	1	2	3	4	5	

19. To what extent can the success of your firm be traced to the following factors

	Low contribution			High contribution	
Proximity to the Equator	1	2	3	4	5
Abundance of cheap labour	1	2	3	4	5
Good climate	1	2	3	4	5
Friendly Kenyan culture	1	2	3	4	5

GOVERNMENT POLICIES

20. How supportive has the government been to your business through its policies on the following?

	Very supportive			very unsupportive	
Govt policy on human resources	1	2	3	4	5
Govt policy on Science & Technology	1	2	3	4	5
Govt policy on infrastructure	1	2	3	4	5
Govt policy on demand stimulation	1	2	3	4	5
Govt policy on business start-up	1	2	3	4	5
Govt policy on protectionism	1	2	3	4	5
Govt policy on taxes	1	2	3	4	5
Govt policy on industry regulation	1	2	3	4	5
Govt as a client, investor or intervener	1	2	3	4	5
Govt as advertising agent internationally	1	2	3	4	5
Political environment	1	2	3	4	5

SUPPORTING INDUSTRIES

21. Please list the firms that support your business in their level of significance, with the most significant at the top (may include suppliers, financial institutions, insurance firms or airlines.)

22. Please list five (5) local suppliers with whom you co-operate

23. Please list five (5) firms you consider your direct local competitors

24. To what extent has collaboration with local supporting organisations contributed to your success?

	Low contribution		High contribution		
Local suppliers	1	2	3	4	5
Peer firms/competitors	1	2	3	4	5
Trade unions	1	2	3	4	5
Insurance companies	1	2	3	4	5
Financial institutions	1	2	3	4	5
Learning institutions such as universities	1	2	3	4	5
R&D Institutions	1	2	3	4	5
Others (Please specify)					
_____	1	2	3	4	5
_____	1	2	3	4	5
_____	1	2	3	4	5
_____	1	2	3	4	5

MARKET STRUCTURE AND CORPORATE STRATEGY

25. What would you say about the following market structure attributes?

	I Disagree		I agree		
There are many players in the industry	1	2	3	4	5
Your market share is high	1	2	3	4	5
There is intense competition locally	1	2	3	4	5
International competition is stiff	1	2	3	4	5
Market access is difficult	1	2	3	4	5
There are many entry barriers to competitors	1	2	3	4	5

26. To what extent does your firm engage in strategies that promote the following business aspects?

	Hardly					Mostly
	1	2	3	4	5	5
Marketing innovation	1	2	3	4	5	5
Image of firm internationally	1	2	3	4	5	5
Explicit PR strategy	1	2	3	4	5	5
Management of change	1	2	3	4	5	5
Marketing Research	1	2	3	4	5	5
Personnel training systems	1	2	3	4	5	5
Choice of market segments	1	2	3	4	5	5
Product packaging	1	2	3	4	5	5
Product range	1	2	3	4	5	5
Advertising	1	2	3	4	5	5
Product range	1	2	3	4	5	5
People involvement	1	2	3	4	5	5

OTHER COMMENTS

27. Please give any comment that you believe can improve this study

Thank you for your participation. If you have any questions about the study, please contact the researcher on:

0722 842 418 or 0733 842 418