

**THE LEVEL OF PREPAREDNESS OF SUGAR FIRMS IN  
KENYA AHEAD OF THE END OF COMESA SAFEGUARDS IN  
FEBRUARY 2014**

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## **DECLARATION**

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

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## **DEDICATION**

I dedicate this project to my Mum Florah Omusula and my family for their undying support and encouragement.

## ABSTRACT

The sugar industry is currently facing numerous challenges. The sugar firms operate in a very dynamic environment and therefore must devise creative strategies to stay competitive. The status of the industry in Kenya is influenced by both internal and external factors. The external factors are the challenges facing the sugar industry at a global level while internal factors are country specific and are multidimensional. This study sought to assess and determine the level of preparedness of the sugar firms in Kenya ahead of the lapse of COMESA safeguards in February 2014. This was achieved by establishing the challenges facing the sugar firms, Competitive Strategies that the sugar firms have adopted in their operations, and the impact of the same in their performance. The study adopted a cross-sectional survey design with all the operating sugar firms in the industry being selected for the study. Kenya Sugar Board as a regulating authority was also included in the study. Data collection was via structured questionnaires with closed, open-ended type of questions. Three managers from each factory, preferably from the marketing, planning and finance departments were required to fill up the questionnaire. Data analysis included both qualitative and quantitative techniques. Target population of this study was the all the operating sugar companies in Kenya. The completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. Frequency distribution tables and bar charts were used to generate outputs. The study found out that the sugar industry was faced with numerous challenges such as high cost of production; unregulated cheap imports, obsolete technology, capacity underutilization and cane poaching. The study concluded that the sugar factories were not ready or prepared to effectively compete with the international sugar producers by the end of February 2014. The study recommended that the government should speed up the privatization process of the state owned millers so as to make them more effective and efficient in their operations. Having Boards of Directors and management team that are serious, can enable the mills attain profitability. However, to attain regional and international competitiveness, the mills need a massive injection of capital and an upgrade of technology. The second recommendation was that the companies should enhance the product base in order to increase their revenues bases. Co-generation must be adopted by all mills and greater efforts must be applied in other diversification activities relating to downstream processing of sugar by-products, including ethanol for the sector to attain overall competitiveness. Thirdly the study recommended that factories needed to effectively manage supply chain and adequately invest in research and development with an aim of having high yielding and early maturing cane varieties. The last recommendation was for the rehabilitation, modernization and expansion of the factories in order to maintain sufficient capacity for the production of sugar that would meet domestic consumption requirements and even surplus for export. Therefore the Kenyan sugar sector must address its competitiveness regionally and internationally, and not competitiveness among Kenya sugar producers themselves. The sector players and all stakeholders must move away from using national parameters to measure success or improvement, but rather adopt regional standards and operational parameters and efficiencies attained by other regional producers.

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## **ABBREVIATIONS**

COMESA	Common Market for Eastern and Southern Africa
BRICS	Brazil, Russia, India, China, South Africa
USD	United States Dollar
WTO	World Trade Organization
ACP	Cotonou Partnership Agreements
KSB	Kenya Sugar Board
ICBT	Informal Cross Border Trade
EAC	East Africa Community
CET	Common External Tariff
NTB	Non-Tariff Barrier
EU	European Union
TCD	Tons Cane per Day
GDP	Gross Domestic Product
SONY	South Nyanza Sugar Company Limited
MT	Metric Tons
SPSS	Statistical Package for Social Sciences

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

In the globalized world, the concept of the competitiveness has gained an unprecedented importance in the recent years. In the past two decades, many developing countries started to be more liberal in their economic policies. Privatization, increasing market economy, financial liberalization and the attempts of the countries for articulation to the world economy started to gain great demand. All these developments and changes have given rise to the increased volume of trade in the world and paved the way for accelerating competitiveness, prevailing liberalization and globalization. Harque (1995) emphasizes that for a country to be competitive it has to be able to produce goods and services that meet the test of the international markets and simultaneously maintain and expand the real income and welfare level of its citizens.

The business environment in which modern firms operate has significantly changed in the past decade and is more turbulent and dynamic for the companies in developing world. Most of the local markets both for products and services in many developing countries have been open to international competition. It is therefore imperative for the organizations to quickly adapt to the ever changing environment in order to survive. To be competitive, companies have to devise strategies that will enable them to achieve the highest level of efficiency to meet challenges posed by foreign rivals. According to Hickman (1992), international competitiveness is highly associated with the growing productivity of a country and depends on four criteria; the pace of productivity growth, past and present trade policies, different pattern of technological change and special growth strategy.

The industries in the developing economies are now pondering how to compete at the international front with stronger rivals. Kenya being one of them has a challenge when it comes to her sugar industry. The Kenya sugar industry is at a disadvantage by being a high cost producer of the sugar and associated products. It is therefore important for the industry to devise creative strategies that will lower its cost of operation and improve the quality of its products in order to ably face the international pressures.

### **1.1.1 International trade**

The world has witnessed rapid economic growth and expansion of trade, driven primarily by Brazil, Russia, India, China and South Africa (BRICS) and emerging Asian Tiger economies. The rapid and continued strong growth will further put upward pressure on prices of crude oil. This will continue to cause major challenges to Kenya's sugar industry that is significantly dependent on fossil fuel for cane transportation and sugar production.

International competition from low cost sugar producers is a big challenge to the local sugar industry. The average cost of sugar production in 2011/12 in Kenya was Kshs. 65,568 (USD 729) per tonne. The world average cost of production for the same is USD 342 per tonne. As a result, importers view Kenya as an attractive market. Kenya needs to bring its cost structure, productivity and quality control to levels comparable to those of its competitors in order to exploit the opportunities availed by the global market.

Kenya's is a signatory to World Trade Organization (WTO), the Cotonou Partnership Agreements (ACP-EU), COMESA Free Trade Agreement and the East African Community Customs Union. Sugar imports and exports are affected by what happens in these trade regimes.

### **1.1.2 Regional Organizations**

The Kenyan sugar industry is protected by COMESA safeguard measures. The safeguards were first granted in 2004 and were to expire in February 2008. Despite the remarkable progress made during the safeguard period, the industry was not ready for an open trade regime in sugar. Kenya therefore sought and was granted an additional four years of protection from March 2008 to February 2012, with a declining tariff and an increasing quota. Additional extension of the safeguards was sought and granted and is due to expire by February 2014.

The extension was granted subject to certain conditions, including: Rising sugar import quota in tandem with a declining tariff, the Kenyan Government adopts a privatization plan within the first 12 months and takes verifiable steps to privatize the remaining publicly owned factories by 2011, the industry to implement cane payment system based on sucrose content instead of weight, the Government adopts an energy policy aimed at promoting co-generation and other forms of bio-fuel production that would contribute to making the industry more competitive.

Other requirements were that the Kenya Sugar Board (KSB) to increase funding for research on high yielding and early maturing varieties and spearhead its dissemination by farmers, the Government to increase funding for road infrastructure and lastly the Government to submit twice yearly performance reports to the COMESA Council on all measures, activities and improvements on the sugar sector's competitiveness.

While Tanzania is not a member of COMESA, Uganda is not a signatory to the COMESA Free Trade Agreement. Consequently, the two countries can and do import sugar from outside COMESA. These sugars find their way into Kenya through Informal Cross Border Trade (ICBT), which poses an unfair competition to the local sugar producers. Similar problems also

occur through transshipment of sugar via other COMESA countries (such as Egypt) from non-COMESA countries (such as Brazil).

The East African Community (EAC) commenced implementation of a common customs Union in 2005. The Customs Union encompasses the removal of internal tariffs, application of a Common External Tariff (CET) and elimination of Non-tariff barriers (NTB).

### **1.1.3 Sugar industry in Kenya**

The sugar industry is a major contributor to the agricultural sector which is the mainstay of the economy and supports livelihoods of at least 25% of the Kenyan population. The subsector accounts for about 15% of the agricultural GDP, is the dominant employer and source of livelihoods for most households in Western Kenya.

In 2011/2012, the industry produced close to 502,563 tonnes of sugar operating at 60 percent of the installed capacity. The industry has the potential of producing over 1 million tonnes of sugar if operated at above 90 percent of the installed capacity. This would meet the domestic needs, currently standing at 783,000 tonnes, and provide a sustained surplus for export.

The industry has to enhance its competitiveness along the entire value chain and reduce production costs by at least 40% to be in line with EAC partner states and COMESA sugar producing countries.

### **1.1.4 Sugar firms in Kenya**

There are currently fifteen sugar firms in Kenya with a combined capacity to process 24,640 Tonnes of Cane per day (TCD). However; self-sufficiency in sugar remains elusive as consumptions continues to outstrip supply. The Kenya Sugar Board puts the total number of firms at thirteen, two of which are collapsed i.e. Miwani and Ramisi, two are proposed i.e. Busia

and Tana River, and the rest, operationally active includes Mumias, SONY, Chemelil, Muhoroni, Nzoia, West Kenya, Sukari, Transmara, Butali, Kibos and Soin.

## **1.2 Research Problem**

The strategies that are adopted by organizations mainly depend on the changes happening in the environment. These environmental changes include changes in technology, competition, globalization, consumer tastes and preferences, government policies and international trade agreements. The strategic responses to the changes may include new product development, adoption of new technology, joint venture, entry to international market, price adjustments, product differentiation among other ways. Porter (1998) notes that corporate strategies have to be seen in a global context. He emphasize that even if an organization does not plan to import or to export directly, management has to look at an international business environment, in which actions of competitors, buyers, sellers, new entrants of providers of substitutes may influence the domestic market. The dynamic business environment calls for effective strategies for the survival of the firms.

The changes whether internal or external do affect the Kenyan industries and in particular the sugar industry. The sugar industry continues to face several challenges. For many years the Sugar firms have depended on one product, sugar as the main product line for revenue generation (Ministry of Agriculture, 2001). Over-dependence on only sugar production exposes the firms to threat of survival mainly as a result of increasing regional and global competition especially from more efficient sugar producing countries like Brazil and India. The cost of production one ton of sugar has been constantly rising over the years and companies cannot be adequately sustained by Sugar revenues alone. Companies can use sugar cane as the main raw material to diversify on the

range of products such as Bagasse products, Molasses and molasses based products (Otieno and Kegode, 2003)

On the other hand Mulinge and Wawire (2010) summarizes the challenges facing the industry as high Cost of production; high debt burden on the part of the millers; poor seed varieties which are not early maturing and low in sucrose content; Inappropriate industry structure; Unclear mandate on the part of industry players; Multiple taxation; low levels of incentives to farmers; poor primary in-bound logistical infrastructure and challenges in corporate governance at the industry level.

It should be noted that the existence of a ready Kenyan domestic market as well as political factors has influenced the decision to continue in sugar production despite the fact that the high cost of production relative to prices makes it unprofitable to produce sugar.

The Government has invested heavily in sugar factories through Kenya Sugar Board by funding the cane development, factory rehabilitation, research and infrastructure development. These investments have however not helped achieve the self-sufficiency in sugar as consumption continues to outstrip production (Kenya Sugar Board Strategic Plan, 2010/14).The resultant deficit is met through imports from the COMESA (Common market for eastern and southern Africa) region and other sugar producing countries including Brazil, United Kingdom, India and Mexico.

Currently there has been minimal research in this industry regarding as to whether the industry in Kenya as it is today is able to effectively compete with the international producers from Brazil and India. It was thought that through privatization of state owned millers, the companies will be

more efficient and robust. However it is worth noting that even the private sugar companies in Kenya still face a myriad of challenges and some cannot compete with the international rivals. Some companies are in a loss making position. There have emerged new challenges that now face the industry given the dynamic nature of the modern day business environment. The studies done do not take into account these new challenges and therefore the need to study this area.

The study examined operating sugar companies in Kenya to provide empirical evidence of this gap. This study therefore sought to fill this gap by seeking to answer the following research questions: What are the current challenges that hinder the growth and competitiveness of sugar the industry? What strategies should be adopted to counter the challenges? Are the sugar companies ready and able to compete effectively come February 2014 when the COMESA safeguards are lifted?

### **1.3 Research Objective**

The objective of the study was to determine the level of preparedness of the sugar firms in Kenya ahead of the lapse of COMESA safeguards in February 2014.

### **1.4 Value of the Study**

This study will be beneficial to the policy makers, practitioners and researchers as it will add to the existing body of knowledge in the area of competitiveness in the sugar industry by providing information on key strategic issues of competitive nature.

Information from this study will also be useful to the management and employees of the sugar companies to utilize the findings and recommendations in evaluating their performance. This will inform them on the best strategies to undertake so as to improve their competitiveness. The research will also be of great assistance to the government of Kenya as it will give guidance in



developing suitable policies in regulating and strengthening the industry with a view of attaining the Kenya's Vision 2030.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter provides a review and summary of the studies and literature on a countries international competitiveness and how it impacts on the local industries of a given country. It also reviews theories from several scholars with a view of bringing an understanding on why some nations, and industries within nations, are more competitive than others on a global scale. The chapter covers the Diamond trade theory, the theory of Comparative advantage, Industry challenges and strategies being undertaken in the sugar industry.

### **2.2 The Concept of Strategy**

Strategy implementation involves the translation of the organization selected strategy into action so as to achieve strategic goals and objectives. Managers translate strategies into action and without implementation; strategies are of no value (Hunger and Wheele, 1996).According to Strickland (2005), strategy comprises of a number of tasks which include; making a decision of what the business the company will be in and forming a strategic vision of where the organization needs to be headed. This is instilling the organization with a sense of purpose, long-term direction and establishing a clear mission to be accomplished. This mission should then be converted into measurable objectives and performance targets which then should be reviewed and evaluated regularly.

Porter (1998) emphasizes that competition is at the core of the success or failure of firms and thus every competing firm should have a competitive strategy, which will relate it to its environment. Strategy is the direction and scope of an organization over the long-term: which

achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations.

Porter (1985) emphasizes that the key to industrial success lies in the question of productivity.

To achieve competitive success, firms must possess a competitive advantage – lower costs or differentiated products that command premium prices and to sustain an advantage, firms have to achieve more sophisticated advantages over time – higher quality products and services or producing more efficiently.

Porter (2008) believes that a firm's ability to increase its profits is dependant on its ability to influence the competitive forces in the industry or to change its market position in relation to competitors and suppliers. Firms do not exist in a vacuum and are dependant on the environment they operate. Thompson (2006) argues that International competition at the firm level has changed over the last decade because of the changing patterns of world trade, globalization of the world economy, rapid dissemination of technology and information, and the rise of the transnational organization. The theoretical framework will be based on Michael Porters Diamond Trade Theory and the theory of comparative advantage.

### **2.2.1 Porters Diamond Theory on International Trade**

The modern day firms operate in a very dynamic and highly competitive environment. Ketels (2006) notes that international competitiveness of countries is an ever-growing concern for governments, firms as well as academic scholars. Porter (1990) suggests that there are inherent reasons why some nations, and industries within nations, are more competitive than others on a global scale. The argument is that the national home base of an organization provides

organizations with specific factors, which will potentially create competitive advantages on a global scale. According to Porter (1990), there are four determinants to national advantage which include; Factor conditions, demand conditions, related and supporting industries and finally the firm's strategy, structure and rivalry.

There are advantageous factors found within a country that can be utilized by companies to advance factors of competition such as skilled workforce and rich amount of raw materials. In addition if the local market for a product is larger and more demanding at home country than in foreign markets, local firms potentially put more emphasis on improvements than foreign companies. This will potentially increase the global competitiveness of local exporting companies. This means a more demanding home market can be seen as a driver of growth, innovation and quality improvements. Krugman (2003) concurs that local economy of increasing returns that keep an industry in a specific location, due to a specific set of demand conditions, will be difficult to be competed away by industries in another country. The other factor will be when local supporting industries and suppliers are competitive, home country companies will likely get more cost efficient and receive more innovative service and products. This will consequently lead to greater competitiveness for the firms both nationally and also on the international market. It is also vital to note that if rivalry in the domestic market is very fierce, companies may build up capabilities that can act as competitive advantages on a global scale. Home markets with less rivalry may therefore be counterproductive, and act as a barrier in the generating of global competitive advantages such as innovation and development.

In today's business environment with Globalization playing an ever more important role, Porter (1990) suggests that the competitive advantage of a nation's industries is determined by the configuration of the four aforementioned elements forming the Diamond.

However Dunning (1993) argues that the world economy has become increasingly globally oriented, and the multinational corporation increasingly important such that many firms have now a large proportion of their operations away from their home base and it is debatable to suggest that their competitive position rests uniquely upon the strength of diamonds in their home base. In questioning the Clarity of Porter's Diamond, Daly (1993) claimed to have significant reason to reject Porter's claim that exchange rates and wages are not integral to determining competitiveness. Porter portrays that domestic rivalry as the major spur to innovation and hence success in international competition.

Porter (2004) has now shifted his focus to productivity at locations that can improve the competitiveness of firms located in those locations. Thus, if firms can, through these location advantages, increase their productivity, it will be good for that country, because higher productivity always leads to higher levels of welfare. Krugman (1998) stresses however that having multinationals in various countries does not mean that the country then becomes internationally competitive, even if the firms located there are internationally competitive. This is because productivity is purely an industry matter and has nothing to do with the international competitiveness of a country.

### **2.2.2 Theory of Comparative advantage.**

In the theories of international trade, the theory of Comparative advantage is an important concept for explaining pattern of trade. David Ricardo firstly introduces the concept of comparative advantage.

According to the law of comparative advantage, a country must specialize in those products that it can produce relatively more efficiently than other countries (Krugman & Obstfeld 2003). This implies that despite absolute cost disadvantages in the production of goods and services, a country can still export those goods and services in which its absolute disadvantages are the smallest and import products with the largest absolute disadvantage.

A country with absolute cost advantages in all its products will specialize and export those products where the absolute advantage is the largest, and will import products with the smallest absolute advantages. Comparative advantage thus also leads to specialization, but differs from specialization based on absolute advantage, in that a country will always import, whether or not it is more or less efficient overall in the production of all goods and services relative to other countries.

Salvatore (2002) notes that this theory of comparative advantage is based on the labour theory of value implying that labour is the only production factor and that it is used in fixed proportions in the production of all products. The theory also assumes that labour is homogeneous.

Although the theory of comparative cost advantage is based on a set of strict assumptions, this does not invalidate the general acceptance of the theory in explaining gains from trade (Krugman 1990; Culbertson 1986).

It is important to note that most of the principles of the World Trade Organization (WTO) are based on the belief in the validity of the theory of comparative advantage (Root 2001)

This theory clearly shows the conditions of production and consumption, the equilibrium relative commodity prices in the absence of trade, the comparative advantage of each nation, it also shows the degree of specialization in production with trade, the volume of trade, the terms of trade, the gains from trade, and the share of these gains to each of the trading nations. However it doesn't explain the location of the advantages and the direction of trade.

### **2.3 Industry Challenges**

As Kegode (2005) points out the Kenyan sugar industry in its current state is not viable and sustainable even with 100 per cent private equity ownership structure. Available evidence to support this contention is that all private millers are struggling and underperforming due to structural and policy deficiencies within the Kenyan sugar sector.

The huge investments by the Kenya government into the state owned mills has not led to self-sufficiency as the sugar consumption continues to outstrip supply(Mulinge,2010).For instance in 2007,sugar consumption was 741,190 MT to local production of 520,404MT giving a shortfall of 220,786MT.Kenya remains a high cost sugarcane and sugar producer compared to regional competitors. The average cost per ton to produce sugar in Kenya is higher than that of its COMESA competitors.

The installed capacity of the operational sugar companies is 24,640 TCD which is not sufficient to produce enough sugar for domestic consumption of 762,027 tons. This compounded by the technical and management limitations as well as capacity underutilization in some factories.

Most countries are growing cane and producing sugar with the aim of getting a range of products and by-products. Cane is cultivated as a strategic product to support industries such as: Beverages, Confectionery, Pharmaceuticals, Wines, Spirits, Power Alcohol, Animal Feeds, Energy, Chemicals and Fertilizers. However in Kenya, diversification to other co-products such as power co-generation and ethanol production for sale is still very limited and largely unexploited (KSB Strategic plan, 2010/2014).

Inadequate, unreliable and poor state of physical infrastructure in the sugar growing zones is also another challenge that has led to low productivity, high production and distribution costs and uncompetitive products and service delivery. The passing of the Sugar Act, 2001 went a long way in strengthening the regulatory framework in the sugar industry. However, some of the supporting regulations have not been approved. A number of proposals that would have improved the business environment in the sugar industry including tax proposals are pending approval by the national assembly. This has consequently resulted into a delay in the full reforms in the industry. A review of all new cases of development and licensing involving sugar milling companies in Western Kenya and the lake region are typical of investments devoid of proper studies and control by licensing authorities thus contributing to current cases of anarchy and arson besides cane poaching (Business Daily,31/12/2012)

These challenges have resulted in dwindling sugar cane supply, local sugar shortages and price hikes. All the new mills also engage in unfair labour practices. A report by Ernst & Young for the Kenyan government on the subject of privatization of public owned mills indicated that



without industry structural reforms, the Kenyan mills will not compete regionally and hence their recommendation that policy reforms precede any privatization.

According to Mulinge (2010), the performance of the sugar industry continues to experience several challenges. The current challenges are; liberalization under the COMESA and WTO protocols, high costs of production, poor state of some factories, ineffective supply chain management, insufficient funding, cane poaching between the rival firms, poor state of roads and inadequate research and development services.

## **2.4 Industry Strategies**

The Kenya Sugar industry is expected to have undertaken key reforms in various areas to build competitiveness and introduce efficient management in the sugar supply chain. Given the key role played by the industry suitable strategies are necessary in the sugar firms to remove the bottlenecks in their operations. The firms have to embrace the market reality that the industry needs to expand its product base as a means of strengthening its competitiveness globally. Therefore, backward and forward linkages need to be exploited to their fullest potential. It is encouraging to note that a number of firms have diversified their product base while majority are in the process.

To address this area of concern and to increase profitability and competitiveness of the industry, the following programmes can be undertaken: Initiating co-generation projects, Initiating ethanol production projects, Producing industrial sugar and industrial alcohol and encouraging intensification to increase food security by practicing mixed farming and intercropping. The

industry has the raw material and favourable market conditions to substantially expand its product base (KSB Strategic plan, 2010/2014).

Another strategy to improve efficiency and gain competitiveness is by improving the state of physical infrastructure through improvement of road transport infrastructure, modernizing and promoting the use of Information and Communication Technology (ICT). Kenya Sugar Board has been on the forefront in financing the rehabilitation of outgrower roads through grants so as to reduce the transport costs. Sugar firms need to invest in additional fleet and invest in Information communication and technology.

To strengthen the legal framework a number of specific strategies have to be undertaken which include; finalizing the Policy and Legal Framework Work- in- Progress and Implementation, Strengthening the Management of Sugar Import policy, strengthening the framework for corporate governance in the sugar firms. Other areas that need attention relates to the development of a comprehensive policy on co-generation and exploitation of bio-fuels and other sugarcane products.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter contains the research methodology and procedures followed in the execution of the research work. It discusses how the research was designed, target population, sample size, data collection procedures and data analysis techniques employed in this study.

### **3.2 Research design**

The study adopted a cross sectional survey design. The design was adopted because the study is present oriented and was relevant to the process of data collection from the sugar manufacturers. The descriptive study was used in obtaining information that can be analyzed, patterns extracted and comparison made so as to clarify and guide in decision making. The other merit of this survey is that it's flexible enough to provide opportunity for considering different aspects of a problem when carrying out the research.

Cooper Schindler (2003) notes the essentials of research design as an activity and time based plan which is based on the question, guides the selection of sources and types of information giving a frame work of specifying the relationship between variables in the study and gives procedures for every research activity.

### **3.3 Population**

The population of this research consisted of all the 15 sugar manufacturing companies in Kenya. The target population comprised of all the eleven operating sugar manufacturing firms in the Kenya which included Mumias, SONY, Chemelil, Muhoroni, Nzoia, West Kenya, Sukari,

Transmara, Butali, Kibos and Soin. According to Kenya Sugar Board Miwani and Ramisi collapsed while Tana River and Busia Sugar Companies are proposed.

The study sampled all the eleven operational firms in the industry. Senior managers and planning officers were randomly selected to fill the questionnaires. The Kenya Sugar Board as a regulating body was also included in the study.

### **3.4 Data collection**

The study used both primary and secondary source of data and was collected using semi-structured questionnaires. The questionnaires which had both closed and open-ended type of questions were distributed to the target respondents. The questionnaire was divided into three sections; the background information, Industry challenges and the Industry strategies. Secondary data was sourced from the strategic plans and financial reports of the firms.

### **3.5 Data Analysis**

Data collected in the research was edited to check for completeness, accuracy and consistency in preparation for coding. Kombo & Tromp (2006) notes that the coding is aimed at creating scales and codes from the various responses allows it to be summarize and analyzed in the intended ways. The Statistical Package for Social Sciences (SPSS) was used in the organization, processing and analysis of quantitative data from closed ended questions.

## CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

### 4.1 Introduction

The objective of the study was to assess and determine the level of preparedness of the sugar firms in Kenya ahead of the lapse of COMESA safeguards in February 2014. This chapter presents the analysis, findings and discussions with regard to the objective.

The researcher targeted all the eleven operating sugar factories in Kenya.

### 4.2: Background information

#### 4.2.1: Response Rate

A total of forty four (44) questionnaires were distributed to respondents across eleven companies. The completed questionnaires were edited for completeness and consistency. Of the forty four questionnaires issued out, thirty six (36) were returned representing a response rate of 82% which the study considered adequate for the analysis.

#### 4.2.2: Experience of respondents in the organization.

As shown in table 4.1, over 78% of the respondents had more than seven years' experience in the Company indicating they understood the sugar industry well.

**Table: 4.1: Years of experience with the Company**

Age	Frequency	Percentage (%)
0-3	4	11%
4-6	4	11%
7-10	20	56%
Over 10 years	8	22%
<b>Total</b>	<b>36</b>	<b>100%</b>

Source: Primary data.

#### 4.2.3: Prior experience in a manufacturing company

The findings in table 4.2 show that 72% of the respondents had a prior experience in a manufacturing set up. This means they were in a better position to respond to questions regarding manufacturing industry and in particular Sugar subsector.

**Table: 4:2: Prior experiences with manufacturing firm**

<b>Age</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Yes	26	72%
NO	10	28%
Total	36	100%

Source: Primary data.

#### 4.2.4: Number of employees in the firms

It can be observed from table 4.3 that only 22% of the companies had employees number ranging between 100 to 1,000. A majority of the companies had over 1,000 employees working under them. This is an indication that this sub sector employs a huge number of Kenyans who depend on it.

**Table 4.3: Number of employees**

<b>Age</b>	<b>Frequency</b>	<b>Percentage (%)</b>
100-500	4	11%
501-1000	4	11%
1001-1500	8	22%
Over 1500	20	56%
<b>Total</b>	<b>36</b>	<b>100%</b>

Source: Primary data.

#### 4.2.5: Respondents designation

It can be noted from table 4.4 that 25% of the respondents comprised of senior managers while 75% were middle level managers. This ensured that the information provided came from experienced and knowledgeable staff.

**Table 4.4: Designation**

a) Senior Manager	16	25%
b) Middle-level manager	20	75%
c) Operational level	-	0%
Total	36	100%

Source: Primary data.

#### 4.3 Industry Challenges.

This section covers findings from the specific questions posed to respondents to determine the main challenges facing the local sugar industry.

##### 4.3.1: The state of competition in the industry.

The results presented in table 4.5 (a) and (b) indicate that the state of competition in sugar industry is different when viewed from both local competition and international competition perspective. From table 4.5, the competition among the local sugar producers is fairly stiff while the international competition is very stiff. This means that the sugar imported from the international rivals is less costly when compared to the local manufactured sugar. It can be observed that all (100%) of the respondents were in agreement that competition from imported sugar is very stiff.

**Table 4.5: State of Competition in the Industry**

**a) From locally manufactured sugar.**

<b>Detail</b>	<b>Frequency</b>	<b>Percentage (%)</b>
i. Very stiff	-	-
ii. Still	4	11%
iii. Fairly stiff	32	89%
iv ) Not Stiff	-	-
<b>Total</b>	<b>36</b>	<b>100%</b>

Source: Primary data.

**b) From imported sugar.**

<b>Detail</b>	<b>Frequency</b>	<b>Percentage (%)</b>
i. Very stiff	36	100%
ii. Still	-	-
iii. Fairly stiff	-	-
iv ) Not Stiff	-	-
<b>Total</b>	<b>36</b>	<b>100%</b>

Source: Primary data.

**4.3.2: Factors contributing to the high cost of production**

The respondents were asked to point out by ticking which factors they considered to be the main causes of a high product cost in their firm. The averaging was done and table 4.6 indicates the findings of the study. From table 4.6, it is evident that; Cost of cane (33%), employment costs (20%), and administrative overheads (14%) and Factory down time (13%) are the main contributors to the higher cost of production in sugar industry.



**Table 4.6: Factors contributing to the high cost of production**

Details	Frequency	Percentage (%)
I. Cost of cane	106	33%
II. Infrastructure	20	6%
III. Employment costs	64	20%
IV. Administrative overheads	45	14%
V. Fuel	15	5%
VI. Factory downtime	41	13%
VII. Marketing and Distribution costs	8	2%
VII. Distribution costs	0	0%
IX Financing costs	25	8%
<b>Total</b>	<b>324</b>	<b>100%</b>

Source: Primary data

#### 4.3.3: Approaches to gaining competitive advantage

The results presented in table 4.7 indicate that majority (57%) of the respondents were of the view that for the firms to gain competitive advantage and be able to compete with the international producers from other countries, they had to reduce their overall cost of production.

**Table 4.7: Approaches to gaining competitive advantage.**

Details	Frequency	Percentage (%)
a) Targeting a particular segment in the market	16	15%
b) Seeking to differentiate your product from that of your competitor	30	28%
c) Lowering the overall cost of production	62	57%
<b>Total</b>	<b>108</b>	<b>100%</b>

Source: Primary data

#### 4.3.4: Awareness of COMESA

When respondents were asked whether they were aware of COMESA, 100 % stated that they were aware of the COMESA and the safeguards.

**Table 4.8: Awareness of COMESA.**

<b>Details</b>	<b>Frequency</b>	<b>Percentage (%)</b>
a) Yes	<b>36</b>	100%
b) No	-	-
c) Not Sure	-	-
	<b>36</b>	100%

Source: Primary data

#### **4.3.5: Readiness to a fully liberalized market.**

The results in table 4.9 indicate that 89% of the respondents in the sugar firms felt that the sugar companies were not ready or prepared for the fully liberalized market.

**Table 4.9: Readiness of the Company for a fully liberalized market for COMESA Member states.**

<b>Details</b>	<b>Frequency</b>	<b>Percentage (%)</b>
a) Yes	-	-
b) No	<b>32</b>	89%
c) Not Sure	<b>4</b>	11%
	<b>36</b>	100%

Source: Primary data

#### **4.3.6: Major challenges facing the sugar companies.**

From the findings in table 5.0 it is evident that sugar firms in the country face a myriad of challenges. However the main challenges that were provided by the respondents included the following; Competition from imported sugar (20%), high cost of production (17%) Cane poaching (17%) Poor supply chain management (13%) and debts and taxes (11%).

**Table 5.0: The challenge with the highest impact on the factory's performance**

<b>Details</b>	<b>Frequency</b>	<b>Percentage (%)</b>
1. Technological changes in the industry	6	2%
2. Competition from imported sugar	70	20%
3. Poor state of factory	12	3%
4. Cost of production	60	17%
5. Nature of Infrastructure	18	5%
6. Government policies	24	7%
7. Debts/Taxes	37	11%
8. Access to funds in the market	12	3%
9. Corporate governance	8	2%
10. Poor Supply chain management	45	13%
11. Cane poaching	60	17%
<b>Total</b>	<b>352</b>	<b>100%</b>

Source: Primary data

#### **4.4: Strategies towards lowering the overall cost of production.**

The respondents were asked to state the best strategies to be undertaken for the overall cost of production to reduce from the choices provided. The findings as shown in table 5.1 were that 32% felt that the cost of cane was high and had to be reduced while 26% of the respondents stated that product base or revenue streams of the sugar firms had to be broadened in order to effectively compete. Capacity utilization in the sugar firms is very critical and 21% were of the opinion that needs to be improved for the companies to fully achieve the maximum output from their operations.

It was also noted that firms need to use modern technology in their operations in order to make their operations more efficient and effective. The findings indicate that 16% of the respondents supported strategies towards investing in new technology.

**Table 5.1: Strategies aimed at reducing the cost of production of sugar.**

<b>Details</b>	<b>Frequency</b>	<b>Percentage (%)</b>
1. Investing in new technology	54	16%
2. Reducing the cost of cane	110	32%
3. Retrenchment of employees	18	5%
4. Expanding the company capacity	70	21%
5. Closing down operations	-	0%
6. Expanding the product base	88	26%
<b>Total</b>	<b>340</b>	<b>100%</b>

Source: Primary data

#### **4.5 Discussion of the Results**

The objective of the study was to determine the level of preparedness of the sugar firms in Kenya ahead of the lapse of COMESA safeguards in February 2014. From the above analysis and results, the findings support the theory of comparative advantage and diamond theory on international trade. The Kenyan sugar industry being uncompetitive, more efficient international producers will continue to export their sugar into Kenya. Porter's (1990) suggestion that there are inherent reasons why some nations, and industries within nations, are more competitive than others on a global scale and the argument that the national home base of an organization provides organizations with specific factors which create competitive advantages on a global scale does apply to Kenya. But these conditions are unfavourable thus making sugar production in Kenya uncompetitive.

Sugar industry is faced with a myriad of challenges. Although Kenya has skilled workforce and a ready market for the sugar products, the cost Cane is high thus leading to a higher cost of

production. Currently the farmers have become powerful and can supply to the millers of their choice offering better prices. The rivalry in the industry was found not to be very stiff. Mumias Sugar Company controls more than fifty percent of the Market share and may influence market parameters to gain advantage over the other millers. The sub-sector employs majority of Kenyans with each company employing an average of over 1,000 staff. From the respondent's views, competition from the imported sugar is very stiff in comparison to the local sugar.

A close look at the factors contributing to the high cost of cane reveals that; cost of cane, employment costs, administrative costs and factory down time are the major factors leading to high cost of production. This means that for a firm to effectively manage the cost of production, it must source for lower cost of raw materials (cane), maintain a lean staff and ensure that the factory availability or efficiency is high. The entire respondents were aware of COMESA and were of the opinion that the sugar firms were not ready for the full liberalization of the market. To gain competitiveness, it was established that sugar imports should be regulated while better managing and controlling cost of production. In addition other major challenges that needed to be addressed included; cane poaching menace, high debts and taxes, poor management of supply chain.

Other ways of improving the efficiency of the industry as highlighted by respondents included; the local firms being allowed to import sugar and sell to the wholesalers, diversifying into other products, reduction of taxes and levies by the government, enforcement of laws governing the subsector and freezing of employment.

It is therefore clear from the study that those factors postulated by Porter that favour an industry to gain international advantage do not largely exist in the local industry. In addition, the theory of comparative advantage by Ricardo doesn't apply to the local sugar industry since most sugar firms are high cost producers and disadvantaged at a global scale.

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

### **5.1 Introduction**

This chapter describes the findings in summary and conclusions. Recommendations and suggestions for further research are also outlined in that order. The limitations of the study are highlighted at the end.

### **5.2 Summary of the Study**

This study sought to determine the level of preparedness of the sugar firms in Kenya ahead of the lapse of COMESA safeguards in February 2014. The study adopted a cross sectional survey design. All the eleven operating (11) sugar companies were selected for survey. Secondary data was sourced from Kenya Sugar Board reports, strategic plans and financial reports of the sugar firms. Primary data with key areas i.e. background information, industry challenges and strategies was collected. The Statistical Package for Social Sciences (SPSS) was used in the organization, processing and analysis of quantitative data from closed ended questions.

The study revealed that the sugar firms in Kenya were not prepared for the full liberalization of the market. The main challenges facing the sugar industry were Competition from imported sugar, high cost of production, Cane poaching and technological changes. Secondary data gathered from the sugar firms show that the cost of sugar production in Kenya averages between USD 800 per ton while that of international competition from non-COMESA countries is about USD 450. It therefore follows that upon the expiry of safeguards, the industry may not survive due to its uncompetitive nature.

Consistent with literature, the study found that the industry faces numerous challenges in its bid to improve its operations and lower the production costs.

### **5.3 Conclusion**

From the above findings, the study concludes that the sugar companies in the country are not ready or prepared for the end of COMESA safeguards. This means that the Kenya government needs to engage with the COMESA secretariat on the possibilities of extension of the safeguards as the reforms in the sub-sector continues. Major causes of the industry being less competitive include high cost of production mainly due to higher cost of cane and administrative costs, competition from cheap imports, lower capacity utilization due to obsolete technology, and cane poaching between the rival local firms. This conclusion is in line with the literature that the industry as it is now cannot compete with international sugar producers and critical reforms are required for it to be streamlined.

### **5.4 Recommendations of the Study**

The study makes a raft of recommendations. First, it is recommended that the government should speed up the privatization process of the state owned millers so as to make them more effective and efficient in their operations. Secondly, the companies should enhance the product base in order to increase their revenues bases. It is worth noting that one of the major millers had already made headway in diversifying its product base. This is an important step and the study recommends that other sugar companies should initiate such investments.

The study further recommends that the factories need to effectively manage supply chain and adequately invest in research and development with an aim of having high yielding and early maturing cane varieties. Lastly, it is recommended that rehabilitation, modernization and expansion of the factories together with write-off of long outstanding debts and review of the taxation regime in the industry should be done in order to maintain sufficient capacity for the production of sugar to meet both domestic consumption requirements and surplus for export.



### **5.5 Limitation of the Study**

Getting primary data through questionnaires with the respondents who were targeted was a major problem. Most of them were unavailable as they were attending to other duties and this delayed the collection of data. Respondents from some companies did not respond to the questionnaires while some were unwilling to divulge confidential financial information from their companies. Secondary data was also used in some of the areas of the study.

### **5.6 Suggestions for Further Research**

The Kenya government has sought for the extension of COMESA safeguards for a number of times. The planned privatization has delayed over the period and therefore there is a need for further research to establish the causes of the delayed privatization process of state owned millers and the best way to carried out the process.

While the government is in the process of privatizing the factories with the view of making them more efficient, it is interesting to note that even the private factories are facing most of the challenges faced by public sugar factories. The cost of production in these factories is equally high. A study needs to be carried out to determine why the private millers aren't as efficient in their operations as the international producers in other countries.

Kenya Sugar Board is the industry regulatory Authority. There is a need for a further research on the role and effectiveness of Kenya Sugar Board in Regulating, developing and promoting the sugar industry.

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DATE.....17/07/2014

**TO WHOM IT MAY CONCERN**

The bearer of this letter .....MICHAEL WANJETSE OMUSILA.....

Registration No.....DG1/70140/2008.....

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

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

Thank you.



  
**PATRICK NYABUTO**  
**MBA ADMINISTRATOR**  
**SCHOOL OF BUSINESS**

## APPENDICES

### APPENDIX I: QUESTIONNAIRE

#### PART A: Background Information

Kindly indicate your responses to the questions below: (Tick (√) as appropriate)

1. How many years have you been with the company?

- i. 0-3 years [ ]
- ii. 4-6 years [ ]
- iii. 7-10 years [ ]
- iv. Over 10 years [ ]

2. Have you had prior experience in a manufacturing firm?

- i. Yes [ ]
- ii. No [ ]

3. How many employees are currently employed by your company?

- i. 100-500 [ ]
- ii. 501-1000 [ ]
- iii. 1001-1500 [ ]
- iv. Over 1500 [ ]

4. Designation:

- i. Senior Manager [ ]
- ii. Middle-level manager [ ]
- iii. Operational level [ ]

## **PART B: Industry Challenges**

1. How do you rate the state of competition in the industry?

a) From locally manufactured sugar.

- i. Very stiff [ ]
- ii. Still [ ]
- iii. Fairly stiff [ ]
- iv. Not Stiff [ ]

b) From imported sugar.

- i. Very stiff [ ]
- ii. Still [ ]
- iii. Fairly stiff [ ]
- iv. Not Stiff [ ]

2. The cost of sugar production in Kenya is so high. Which of these factors mainly contribute to the high cost of production in your company? (You can choose multiple factors)

- i. Cost of Cane [ ]
- ii. Infrastructure [ ]
- iii. Employment costs [ ]
- iv. Administrative overheads [ ]
- v. Fuel [ ]
- vi. Factory downtime [ ]
- vii. Marketing and distribution costs [ ]
- viii. Financing costs [ ]

3. Which of the following approaches is adopted by your company in seeking to gain a competitive advantage?

- i. Targeting a particular segment in the market [ ]
- ii. Seeking to differentiate your product from that of your competitor [ ]
- iii. Lowering the overall cost of production [ ]

4. Have you ever heard of COMESA?

- i. Yes [ ]
- ii. No [ ]
- iii. Not Sure [ ]

5. Is your company ready for the liberalized market for COMESA member states?

- i. Yes [ ]
- ii. No [ ]
- iii. Not Sure [ ]

4. In this segment, kindly select the most appropriate scale.

As a company strives to gain competitive advantage over its rivals, it will encounter several challenges, both from within the firm, in the industry and globally. Which of the following challenges greatly affect the operations of your company?

- i. Technological changes in the industry [ ]
- ii. Competition from imported sugar [ ]
- iii. Poor state of factory [ ]
- iv. Cost of production [ ]
- v. Nature of Infrastructure [ ]
- vi. Government policies [ ]

- vii. Debts/Taxes [ ]
- viii. Access to funds in the market [ ]
- ix. Corporate governance [ ]
- x. Poor Supply chain management [ ]
- xi. Cane poaching [ ]

**PART C: Industry strategies**

1. The COMESA sugar gain an advantage over locally manufactured sugar since it is cheaper. This is because its cost of production is low. For locally manufactured sugar to be able to compete effectively with the cheap imported sugar, the local firms must reduce their cost of production. What strategies are in place in your company to reduce the cost of production and maintain competitiveness?

- i. Investing in new technology [ ]
- ii. Reducing the cost of cane [ ]
- iii. Retrenchment of employees [ ]
- iv. Expanding the company capacity [ ]
- v. Closing down operations [ ]
- vi. Expanding the product base [ ]

2. What other ways can sugar companies in Kenya devise in order to effectively compete with the international producers like Brazil, Malawi, Egypt, India and Swaziland?

- i. ....
- ii. ....
- iii. ....



## **APPENDIX 2: LIST OF OPERATING SUGAR COMPANIES IN KENYA**

1. Chemelil
2. Muhoroni
3. Mumias
4. Nzoia
5. South Nyanza
6. West Kenya
7. Soin
8. Kibos
9. Butali
10. Transmara
11. Sukari

**Source: Kenya Sugar Board (KSB) Year Book of Statistics (2012)**