STRATEGIES ADOPTED BY MUMIAS SUGAR COMPANY LTD TO GAIN COMPETITIVE ADVANTAGE

BY

BARASA EVANS JAKAIT

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER 2012

DECLARATION

I declare that this research project is my original work and has not been presented for award of a degree in any other University.

Signed -- Date --

Barasa Evans Jakait

D61/75683/2009

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

Signed-- Date --

Dr. Vincent Machuki

Lecturer,

Department of Business Administration,

School of Business,

University of Nairobi.

ACKNOWLEDGEMENTS

I wish to first and foremost thank God the almighty for giving me the strength to go through this program. Undertaking the program as a working student, a parent and operating from a distant location has been a challenge which without God's assistance would have been difficult to overcome.

My supervisor, Dr. Vincent Machuki has been of tremendous help. His guidance throughout the research project for which am greatly indebted, has greatly assisted me achieve my objective. My gratitude also goes to the University administration and staff at Kisumu campus for their support. I wish to sincerely thank the Management of Mumias Sugar Company Ltd for allowing me to interview their management team and collect all the relevant data for my study.

I thank my family, friends and workmates for the encouragement to pursue the course, my classmates for the various insightful discussions and particularly Gilbert Kimaiyo whom we started the program with at the main campus Nairobi before relocating to Kisumu campus due to change in working stations.

DEDICATION

The project is dedicated to my parents, the late Naftali Masake and Miriam Atetewa Akisa, my siblings, my wife Doris, our children Christine, Faith, Joe and Jael for your trust, love and support during the course of the program.

ABSTRACT

The focus of the study was to establish the strategies that Mumias Sugar Company Ltd has adopted to gain competitive advantage. The research design was based on case study which involved detailed investigation of the company. Both primary and secondary data were gathered. The former was from interviews with senior management of the company while the latter was from the company's strategic plans and annual financial reports. The findings of the study have largely indicated that the company has endeavored to gain competitive advantage vide adoption of differentiation and diversification strategies. Differentiation strategy was manifest through initiatives put forward by the company like, branding of its sugar products in diverse sizes of a quarter, half, one, two and five kilogram packets which cater for all classes of consumers in the market place. Lately the company has availed fortified sugar to the market; the sugar is fortified with Vitamin A to cater for changing consumer needs. The company's strategic function is being steered by a strong corporate and marketing department headed by a director. Regular advertising in the local media assists in reinforcing the company's products in the market. The company's corporate social responsibility function is strategic. The company is the major sponsor of AFC Leopards football club, a major football club in the country with a fanatic club base nationally. The players don jerseys with Mumias Sugar clearly written on them whenever they play football league games thus fully advertising the company and entrenching its products in the consumers' minds. The company has invested a lot in the construction and running of schools which post very impressive results in national examinations. Names such as Booker academy with their regular good performance in examinations are strongly associated with Mumias sugar hence the good performance translates to a perception of excellence in the company and its products. A perception that has greatly assisted the company differentiate itself from the competition. Diversification initiatives include, electricity generation whereby a 38 Mega Watts (MW) cogeneration plant commissioned in 2009 presently produces 34 MW out of which 26MW is transmitted to the national grid. The company sells molasses which is a syrup, by-product from the processing of sugarcane into sugar to Industrial users, Individual users and traders. It has finalized installing an ethanol production plant that they forecast is capable of converting their molasses output into 65,000 litres a day of ethanol. Water bottling and sale project was completed in May 2012 and bottled water brand named Sprinkles is presently available in the market. The findings of the study have provided useful insights on how an organization can utilize differentiation and diversification strategies to better its position in the market. The recommendations of this research are that similar studies be conducted industry wide in order to come up with an industry position on strategies employed by various millers to overcome the numerous challenges they are encountering. Comparative studies may also be undertaken with related agricultural industries such as Dairy and Horticulture in order to compare the position with the strategies applied in these industries to achieve competitive advantage.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Organizations desire to excel in the fields they operate in. This can only be achieved by having an edge over the competition. This edge is defined as competitive advantage and is achieved by endeavoring to avail goods and services to the consumer that in the consumer's eye create a perception of excellence. The consumer is led to believe that the organization is better than the competition. Porter (1985) viewed the achievement of competitive advantage as being a result of producing goods and services at lower costs hence lower prices or being able to differentiate them in a manner that makes the customer perceive them as better than the competitor's. Competitive advantage is the product of competitive strategies properly crafted to beat the competition. Strategy thus is important in the realization of competitive advantage and is viewed as a game-plan management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance (Thompson, Strickland and Gamble 2007).

In this study, strategy as a game-plan used by management, is anchored on game theory which Myerson (1991) views as the study of mathematical models of conflict and cooperation between intelligent rational decision-makers. The decision makers' actions are usually interdependent, thus using game theory they are able to structure, analyze and understand various scenarios before making decisions which will enable them achieve desirable outcomes. Shapiro (1989) poised that an organization can achieve increased profits by influencing the actions and behavior of its rivals and consequently manipulates the market environment. Game theory avails tools that may be used to develop models that can be useful in analyzing the decision making behavior of various firms in the market. These are able to give explanations on why firms act against their own objectives, ignore certain strategic actions of their competitors and neglect certain opportunities.

Behavior of the various players is a critical consideration in game theory. Camerer (1991) looked at game theory as the analysis of rational behavior in situations involving interdependence. Firms in a market are faced with a set of choices and do possess information on the likely outcomes. The ultimate results of their interactions will depend on the players' decisions. At the initial stage the firms are likely to try co-operative strategies that make convergence better off than under equilibrium strategies. The choices made affect the interests of other players.

Mumias Sugar Company Ltd operates in the volatile sugar industry in Kenya, which experiences several challenges such as sugar shortages, cheaply imported sugar, vicious competition from new entrants such West Kenya and Butali Sugar Companies as well as coping with regional requirements such Comesa safeguard measures. In order to overcome these challenges the company has to come up with appropriate strategies that will enable it have an edge over the competition.

1.1.1 The Concept of Strategy

Strategy is a fundamental ingredient of management in any organization. Johnson, Scholes and Whittington (2008) view strategy as 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 fulfill stakeholder expectations. An organization's focus would thus be on where it intends to be in the long run; the markets it intends to compete in as well as the activities involved therein, how it will gain competitive advantage in those markets, the resource requirements, effects of external environment on its competitiveness and finally stakeholders' expectations on the organization.

Issues of strategy have bothered scholars and organizations since the 1950s when great thinkers on strategy such as Drucker (1954) started asking questions such as what is our business and what should it be? Selznick (1957) came up with the idea of matching the organization's internal factors with external environmental circumstances. This is what has developed today to what is known as SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis. Strengths and weaknesses of the firm are assessed in light of the opportunities and threats from the business environment. Chandler (1962) was critically looking at the relationship between structure and strategy. Ansoff (1965) pointed out that strategy was an important component in the success of an organization. He saw it as the common thread in an organization's business. By 1970s strategic management had increasingly been adopted in the United States of America and other developed nations.

The success of strategy in an organization lies in the hands of management. Hence strategic management, which Ansoff (1990) looks at as a systematic approach to a major and increasingly important responsibility of general management to position and relate the firm to its environment in a way that will assure its continued success and make it secure from surprises, thrusts upon management the task of making decisions and taking actions that are geared towards the development of strategies that will enable the organization achieve its objectives. Meaning that the success of any firm largely lies on management and the strategy that it chooses to implement in relation to its external environment. In doing this, management's outlook will be futuristic; planning will be long-term, top management will be greatly involved, flexibility in actions is encouraged and deployment of huge amounts of resources is necessary. According to Johnson and Scholes (1993) management's concern would be on deciding on strategy and planning how that strategy is to be put in effect via strategy analysis, choice and implementation.

Mintzberg(1987) poised that political and behavioral considerations were important if strategy was to succeed. Porter (1987) was of the view that strategic planning needed to be rethought and re-casted. His thinking was that more emphasis needed to be placed on implementation of strategy rather than planning. There ought to be a link between planning and action. These thoughts gave birth to the competitive advantage idea. How best organizations could compete and realize competitive advantage over others and reap the benefits thereof. There was therefore the need for strategic innovations to create competitive advantage.

1.1.2 The Concept of Competitive Advantage

Competitive advantage is the superiority that an organization enjoys over the competition by virtue of being able to offer goods and services that are perceived to be of greater value by the consumers. Porter (1985) identified two basic types of competitive advantage: cost advantage whereby a firm is able to deliver the same benefits as the competition but at a lower cost, and differentiation advantage where a firm delivers benefits that exceed those of the competition.
Competitive advantage enables an organization to create superior value for its customers and superior profits for itself.

According to Thompson and Strickland (2002), Competitive advantage is derived by a company whenever it has an edge over its rivals in serving customers and defending against competitive firms. Sustainable competitive advantage is achieved from core competencies that yield long term benefits to the organization. Hamel and Prahalad (1990) define core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. Majorly core competencies are hard for competitors to imitate. These core competencies translate to superior value in terms of products that the firm avails to its customers. Meaning that in the customers' eyes whatever value they get is high and is attributable to the superior competence that the firm possesses. Firms excel in areas such as marketing, finance, production, brand management, resource mobilization or technology enabling them gain competitive advantage.

Saloner, Shepard and Podolny (2001) argue that most forms of competitive advantage mean either that a firm can produce some service or product that its customers value than those produced by the competition or that it can produce its product or service at a lower cost than competitors. They add that in order to prosper, the firm must also be able to capture the value it creates. In order to create and capture value the firm must have a sustainable competitive advantage. Strategies that are successfully implemented have the ability to raise a firm's performance to a level that it enjoys competitive advantage and is capable of outperforming current as well as potential competitors. Barney (1991) emphasizes that a firm experiences competitive advantage when its actions in an industry or market create economic value and when few competing firms are engaging in similar actions. He goes ahead to tie competitive advantage to performance arguing that a firm obtains above normal performance when it generates greater-than- expected value from the resources it deploys. According to Ansoff (1993), in order for an organization to optimize its competitiveness and profitability, it has to match its strategy and supporting capability with the environment. Organizations that succeed are those that are able to successful link their strategy to the external environment.

1.1.3 The Kenya Sugar Industry

Sugar industry in Kenya started with the establishment of the first sugar factory in Miwani town which is near Kisumu city in Kisumu County in the former Nyanza province in 1922. This was followed by Ramisi Sugar Company Ltd at the coast in 1927. Upon attainment of independence, six other companies were established in the following order: Muhoroni Sugar Company Ltd (1966), Chemelili Sugar Company Ltd (1968), Mumias Sugar Company Ltd (1971), Nzoia Sugar Company Ltd (1978), South Nyanza Sugar Company Ltd (1979), West Kenya Sugar Company Ltd (1981). The latest entrant is Butali Sugar Company Ltd which started operations in 2011. Both West Kenya and Butali are wholly privately owned ((Kenya Sugar Board, Strategic Plan 2010 -2014).

Establishment of these factories was driven by the desire by the government to speed up socio-economic development, address regional economic imbalances that existed, have more citizens participate in economic activities, encourage local entrepreneurship as well as promote foreign investments through joint ventures. Government Sessional Paper No. 10 of 1965 on African Socialism clearly spells this out. The investment in the sugar industry as outlined has however not been able to make the country sugar sufficient. The country is still a net importer of sugar with imports rising from 4,000 tonnes in 1984 to 166,280 tonnes in 2006. Importation of an average of 200,000 tonnes annually is necessary to bridge the gap between what is produced locally and consumption (Kenya Sugar Board, 2009).

Kenya is a key player in the trading blocs such as East Africa Community, Common Market for Eastern and Southern Africa (COMESA) in which it is a signatory to various trading agreements. The East Africa Community Customs Union has put in place requirements for common external tariffs while COMESA allows duty and quota-free access of commodities such as sugar. In 2007, COMESA acceded to Kenya's request for a four year extension of safeguard measures against competition from cheaply imported sugar. This was to allow implementation of the following measures meant to improve the local industry: privatization in order to eliminate state control of the industry and implementation of sucrose based pricing for compensating sugar producers. The extension period was due to expire in February 2012 (Kenya Sugar Board, Strategic Plan 2010 - 2014).

1.1.4 Mumias Sugar Company Limited

Mumias Sugar Company Limited is in Mumias Town, Kakamega County in Western Kenya. It was incorporated in 1971 with the objectives of creating employment, generating income to the local farmers, reduce overdependence on importation of sugar and curb rural-urban migration. To achieve this, it was expected to operate as a commercial enterprise ready to compete with other milling firms and sugar importers. The government in 1967 commissioned a subsidiary of Booker McConnell, Bookers Agriculture and Technical Services, a British agricultural management firm, to study the feasibility of growing cane at Mumias and to initiate a pilot project. The results of the study were positive and indicated that it would be possible to establish a viable sugar scheme with a factory supplied with cane from both nucleus estate and out grower cane farmers through an out growers Scheme. The government accepted the results and consequently incorporated the company in 1971. (Mumias Sugar Company Ltd 2012).

Mumias Sugar Company Ltd is the leading sugar producer in the country accounting for about 60% of the locally produced sugar. It operates in the volatile sugar industry which is rampant with sugar shortages given that the amount of sugar produced locally is inadequate to fulfill the demand. Consequently due to lack of proper legislation, a lot of cheap sugar from the global market gets into the local market thus frustrating pricing for the local producers. Small farm holding and land sub-division make cane development an expensive exercise which the company has to contend with. The environment the company is operating in has experienced a lot of changes such as licensing of other players like Butali Sugar Company Ltd in Malava, the increased influence of West Sugar Company Ltd in Kabras, increased competition from cheaply imported sugar from the global market and focusing on how to operate at the end of the COMESA safeguard measures which are supposed to come to an end in 2012(Mumias Sugar Company Ltd 2012).

1.2 The Research Problem

Developing a strategic vision and mission, setting objectives, and crafting a strategy are basic direction-setting tasks. They map out where a company is headed, the targeted strategic and financial outcomes, and the competitive moves and internal action approaches to be used in achieving the desired business results (Thompson, Strickland and Gamble 2008). Together, they constitute a strategic plan for coping with industry and competitive conditions, the expected actions of the industry's key players, and the challenges and issues that stand as obstacles to the company's success. A company's strategic vision, objectives, and strategy constitute a strategic plan for coping with industry and competitive conditions, outcompeting rivals, and addressing the challenges and issues that stand as obstacles to the company's success. A strategy that leads to competitive advantage is fundamental to a company lest it be outcompeted by stronger rivals. Choice of an effective strategy is thus critical to management. However before choosing a desired strategy, an organization has to generate various strategies that it feels can adequately give it the edge it desires against the competition. Strategy generation delivers guidance on formulating a Strategy that will ensure long term success of the firm and staying ahead of competition.

Mumias Sugar Company Ltd operates in an environment that is quite volatile and some of the challenges it has to contend with include the following, Licensing of Butali Sugar Factory in Malava in 2011 has led to sugarcane shortage due to some farmers opting to supply the new miller instead of Mumias Sugar Company Ltd. The new miller does not have a developed sugarcane nucleus of its own. Hence it solely depends on private suppliers of sugarcane. Competition from West Sugar Company Ltd which is expanding its production capacity is getting fierce. Increased competition from cheaply imported sugar from Brazil and focusing on how to operate at the end of the COMESA safeguard measures which come to an end in 2012 is an issue. The measures allow importation of a maximum of 340,000 metric tonnes of sugar duty free into the country annually with anything above attracting a punitive tax of 120 per cent. Lack of proper legislation on importation of sugar has also complicated the situation (Mumias Sugar Company Ltd 2012).

With the significant change in the environment Mumias Sugar Company Ltd is presently operating under brought about by such factors as globalization, frequent changes in technology and competition, manifest in fierce competition from new entrants like Butali Sugar Company Ltd in Malava, the increased influence of West Sugar Company Ltd in Kabras, increased competition from cheaply imported sugar from the global market and focusing on how to operate at the end of the COMESA safeguard measures which are supposed to come to an end in 2012 this study seeks to answer the question; what strategies has Mumias Sugar Company Ltd adopted to gain competitive advantage?

A number of studies have been conducted on competitive strategies in the sugar industry. Obado (2005) researched on competitive strategies employed by the sugar manufacturing firms in Kenya. He was able to establish that sugar firms utilized competitive strategies to gain market positions. According to him, sugar firms mainly utilized leadership and differentiation strategies with great emphasis on customer service, distribution and branding. Jowi (2006) focused on Mumias sugar company Ltd and researched on Competitive strategies applied by this company. The objectives of the study were to determine the competitive strategies applied and establish the factors that influenced the choice of strategy. The study showed that Mumias Sugar Company Ltd had put in place several initiatives that focused on cost reduction thus indicating that low cost production was the strategy of choice. Jowi (2010) looked at strategic responses to competitive environment by South Nyanza Sugar Company Ltd and recommended that the government needed to effect proper legislation to curb cheap imports of sugar and thus proper growth of local sugar industries. Lutta (2010) researched on the challenges of implementing a strategic plan in Mumias Sugar Company Ltd. She looked at the challenges facing implementation of the five year strategic plan 2003 – 2008 of Mumias Sugar Company Ltd.

Due to the significant change in the environment Mumias Sugar Company Ltd is presently operating under, this study sought to answer the question; what strategies has Mumias Sugar Company Ltd adopted to gain competitive advantage?

1.3 Objective of the Study

The objective of this study was to establish the strategies adopted by Mumias Sugar Company Ltd to gain competitive advantage.

1.4 Value of the study

This study contributes to theory development by highlighting how the various theories on strategy and its implementation get customized to various environments resulting in competitive advantage for organization that are able to get it right. It brings out how strategies such as cost leadership, differentiation and diversification advanced by strategic management gurus get customized to the local environment for the benefit of the organization and the industry as a whole. The knowledge gap in the studies will act as a useful starting point for future research in the same area of study.

The government benefits vide using the study to develop appropriate policies that will enhance proper implementation of strategies by the various players in the sugar industry. Kenya Sugar Board which is a regulatory body in the sugar industry in the country will find the study useful in aiding it come up with appropriate mechanisms for upholding its mandate.

The findings of this study provide great insights to Mumias Sugar Company Ltd and enable them explore other strategies that will assist them sustain competitive advantage. Other Sugar Milling firms also benefit vide benchmarking on initiatives put forth by Mumias Sugar Compny Ltd hence enhancing competition in the sugar industry for the benefit of all the stakeholders. Other related industries in the Agricultural sector such Dairy and Horticulture may also find the issues raised useful and opt to implement some of the ideas for the benefit of the respective industries.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The focus of this chapter shall be on the available theoretical literature on concepts of strategy, strategic management and competitive strategies that enable organizations gain competitive advantage, review of this literature and the knowledge gap.

2.2 The concept of Strategy

Strategy is a game-plan management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance (Thompson, Strickland and Gamble 2007). Before coming up with an appropriate strategy, an organization needs to carry out a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis to examine its strengths and weaknesses against the external opportunities and threats prevailing in the environment. Johnson, Scholes and Whttington (2008) outline three key success factors for evaluating strategic options: The first is Suitability; where the concern is whether the chosen strategy would deliver the desired results in view of the organization's capabilities and environment. Feasibility is the second, where the concern is whether the organization will be able to avail the necessary resources to implement the strategy. Lastly, Acceptability where concern is whether the strategy will be in tandem with expectations of the stakeholders, which expectations relate to returns and risks.

According to Thompson, Strickland and Gamble (2008), developing a strategic vision and mission, setting objectives, and crafting a strategy are basic direction-setting tasks. They map out where a company is headed, the targeted strategic and financial outcomes, and the competitive moves and internal action approaches to be used in achieving the desired business results.

Together, they constitute a strategic plan for coping with industry and competitive conditions, the expected actions of the industry's key players, and the challenges and issues that stand as obstacles to the company’s success. A company's strategic vision, objectives, and strategy is a strategic plan for outcompeting rivals. Without a strategy that leads to competitive advantage, a company risks being outcompeted by stronger rivals.

Choice of an effective strategy is thus critical to management. However before choosing a desired strategy, an organization has to generate various strategies that it feels can adequately give it the edge it desires against the competition. Strategy generation delivers guidance on formulating a Strategy that will ensure long term success of the firm and staying ahead of competition. There is need for the organization to have a clear vision and direction, defined stance, create a plan for the road ahead and maintain consistency in strategies. Analysis of the generated strategies follows; this encompasses taking a critical look at the organization’s markets, costs and capabilities in order to come up with a strong strategic plan for existing or new markets. By applying creativity an organization will be able to come up with a number of options and opportunities that can be used to build and implement a solid strategic plan. After this then choice of the effective strategy to be implemented is made. When making strategic choices, results may eventually depend as much on chance and opportunity as on the deliberate choices of those managers.

The concept of strategy in this study is anchored on game theory which looks at the behavior of various players in the market place and the decisions they make based on the outcomes they desire to achieve. Myerson (1991) views game theory as the study of mathematical models of conflict and cooperation between intelligent rational decision-makers. The decision makers’ actions are usually interdependent, thus using game theory they are able to structure, analyze and understand various scenarios before making decisions which will enable them achieve desirable outcomes. Shapiro (1989) was of the view that an organization can achieve increased profits by influencing the actions and behavior of its rivals and consequently manipulate the market environment. Game theory avails tools that may be used to develop models that can be useful in analyzing the decision making behavior of various firms in the market. Camerer (1991) looks at game theory as the analysis of rational behavior in situations involving interdependence. Firms in a market are faced with a set of choices and do possess information on the likely outcomes. The ultimate results of their interactions will depend on the players' decisions.

The strategic options open to the organization are varied. They include growth options as postulated by (Ansoff 1987) where the organization may opt for market penetration, market development, product development or diversification. The organization could opt to consolidate, divest or harvest. Implementation of these options can be vide internal development, where the organizations utilizes its own resources, Acquisitions, Mergers or Strategic Alliances.

2.3 Strategic Management

There are several schools of thought on strategic management. However the one that underpins this study is the classical approach which was vividly brought out by questions such as raised by Drucker (1954), what is our business and what should it be? The approach points out the need for the organization to examine itself and find answers to the following questions: Where are we presently? , where do we want to go? , and how do we get there? Based on these questions, the organization is able to analyze itself, align itself to the environment it is operating in, make choices on available options and implement specific courses of action aimed at making it competitive. As the organization does this, its focus is futuristic, the actions are long term, top management is critically involved and huge amount of resources are needed to achieve the envisaged objectives. Indeed Ansoff (1990) summed strategic management as a systematic approach to major and increasingly important responsibility of general management to position and relate the firm to its environment in a way that will assure its continued success and make it secure from surprises.

2.4 Competitive Advantage

Competitive advantage is gained by an organization when it is able to offer the consumer greater value than the competitors. Such value can be in form of lower prices or quality services. Very strong competitive advantage can be a strategy that may be difficult to be imitated by the competition. Any activity that creates superior value over the competition can be viewed as competitive advantage. Organizations worldwide desire that the gap between perceived value and the cost of producing a commodity be greater than that of the competitors. Indeed many organizations struggle to achieve competitive advantage but few have the knowhow on achieving and sustaining it.

Porter (1985) outlines three generic strategies that organizations can use to gain competitive advantage: Cost leadership strategy; where an organization seeks to be the low –cost producer in comparison to its competitors, differentiation strategy; where the desire of the organization is to avail to the consumer a positive non–price attribute that distinguishes it as superior to the competitors and focus strategy; where organizations direct their attention to narrow product lines, buyer segments or geographical markets using either cost or differentiation approaches to gain competitive advantage. These cost and differentiation advantages are viewed as positional advantages as they position an organization in the industry as a cost leader or champion in differentiation. This view is in line with the resource-view perspective which emphasizes that an organization utilizes its resources and capabilities to create competitive advantage which results in superior value being created. It holds that for an organization to develop competitive advantage, it must possess resources and capabilities that are superior to the competition.

Ansoff (1987) came up with a product /market matrix depicting four corporate strategy options available to an organization that has either a single line of business or a line of businesses that are closely related to one principal business. The first option is market penetration where the firm endeavors to increase consumption of its existing products in existing markets. The second option is Market development where existing products are availed to completely new markets.
The third option is Product development where in this case the products are the ones that are new and are being introduced into existing markets. The fourth and last option is diversification which involves exploiting new opportunities that involve new product – market scope. The products and markets are both new. The diversification strategy is more risky because the business is moving into markets that it has little or no experience. However the moment the organization gets it right with this strategy, it is able to gain competitive advantage over the competition. Diversification strategy has the potential of availing to an organization the necessary resource muscle that will enable it carry out various initiatives such as innovation, research and development aimed at catapulting the organization miles ahead of the competition.

2.5 Strategies to Gain Competitive Advantage

Porter (1985) came up with generic strategies that a firm can pursue in order to outsmart the competition. These are Cost leadership, Differentiation and Focus. The strategies are called generic because they are applicable to any organization in any situation. Each of them is very general and must be developed into a detailed strategy that fits the specific situation of the firm. These strategies if properly adhered to by a firm can enable it achieve sustainable competitive advantage. Ansoff (1987) came up with growth strategies commonly referred to as Ansoff's product/growth matrix. These are Market Penetration, Market Development, Product Development and Diversification strategies. Each of them is discussed below.

A firm pursing Cost Leadership strategy opts to be the leader in cost minimization. The firm's unit cost of production is the lowest in the industry. A firm is able to succeed in cost leadership due to the following; it is able to access capital required to make significant investment in production assets. With this in place, the firm is able to produce at the lowest unit cost in the industry which cost will make other firms be at a disadvantage thus allowing the firm to enjoy competitive advantage. Possession of skilled manpower is another factor. Efficient production is capable of being realized as a result of this. Other ways of enhancing efficiency are for instance assuming outputs are held constant the firm is able to reduce inputs. Or if inputs are held constant the firm is still capable of increasing outputs. Reducing waste also reduces materials required thus increasing efficiency. Expertise in manufacturing has the ability of making a firm operate at a low cost comfortably. Efficient distribution channels and access to cheap raw materials are other factors that are likely to influence low production hence contributing in cost leadership.

Under Differentiation strategy, a firm presents products with unique attributes valued by customers. The customers perceive the products to be better than those from the competition. This then allows the firm to charge a premium price for it. This strategy is made possible by the following factors; Accessibility to leading scientific research which enables a firm to continuously come up with unique products, possession of highly skilled and creative product development teams that utilize their creativity for the benefit of the firm, having a strong sales team with the ability to successfully communicate the perceived strengths of the products to the customers and being able to place in the customer's mind that products from the firm are always of high quality. The firm then gets the reputation for quality and innovation. An example is Daimler benz the manufacturers of Mercedes benz vehicles. In the customer's mind all their benz vehicles are of high quality hence the premium prices charged. According to Harvey (1988) achieving differentiation is likely to result in insulation against competitive rivalry due to securing customer loyalty. The resulting competitive advantage leads to increased returns sometimes through making customers less sensitive to high product price. Ansoff (1988) poised that differentiation strategy is based on achieving an industry-wide recognition of different and superior products and services compared to those of the competition. Differentiation can be in various forms such as Product differentiation which is achieved by offering a valued variation of the physical product.

Armstrong and Kotler (1999) point out that differentiation can occur by manipulating many characteristics, including features, performance, style, design, consistency, durability, reliability or reparability. This allows an organization to target specific populations. Service differentiation can be in the form of additional service that accompanies the physical product. An organization can then charge a premium for the product. People differentiation can be realized by recruiting and training better than the competition. This particular advantage which is intangible may be difficult for the competition to imitate because its source may not be very apparent to an outsider. Other types of differentiation can be image differentiation usually perceived vide certain brands, Quality differentiation exemplified in reliability. Meaning that a product is able to do the job it was designed to do. Innovation differentiation which encompasses both product innovation as well as process innovation which are very useful in cost reduction.

An organization operating under Focus strategy produces products that are tailored to meet specific needs of a particular market. The market can be geographical or demographic. The firm concentrates on a narrow segment and within it attempts to achieve either a cost leadership strategy or differentiation strategy. The thinking here is that the needs of the group can be better served by focusing on it entirely. Though firms pursuing this strategy, due to their lower volumes are at a disadvantage when bargaining with suppliers, those on a differentiation-focus strategy can be able to pass the higher costs to the customers since the products do not have close substitutes. Firms pursuing this strategy can be able to utilize their product development strengths for the benefit of the narrow market segments chosen. Hence the firm will enjoy sustained competitive advantage within the particular segment.

Market Penetration strategy's focus is selling existing products in existing markets. The products and markets are well known to the organization. Through initiatives such as competitive pricing, aggressive advertising, sales promotions as well as dedication of more resources to personal selling, an organization is able make itself much more competitive in the industry. This strategy is also capable of enabling an organization secure a growth market.

The focus for Market Development strategy is selling the organization's existing products in new markets. This can be achieved in the following ways; selling the products in new geographical areas such as exporting to new countries, availing the products in new dimensions through packaging and use of different pricing policies to attract different customers hence creating new markets.

An organization operating under Product Development strategy endeavors to introduce new products into existing markets. Using research and development initiatives, an organization can avail competitive products that will prove to be appealing to the organization's existing market. The organization can also opt to modify the existing products and present them to the existing markets as new products.

Diversification strategy is viewed as a vehicle that takes a company into new markets with new products or services. According to Ansoff's product/market matrix, diversification takes place when a company opts to introduce new products into totally new markets. The reasons for diversification can be: Growth; where the company may feel that it is possible to utilize it present capabilities in other markets to enable it grow. The company is able to exploit economies of scale to enhance its growth potential. The need to escape from undesirable industry environments may push a company to diversify. Lastly, the company may find diversification as a necessary means of utilizing its surplus cash flows. The overall aim of diversification should be to create value or wealth in excess of what firms would enjoy had they not diversified.

Strategy formulation and implementation does not guarantee an organization competitive advantage. As pointed out by Ansoff (1993), in order for an organization to optimize its competitiveness and profitability, it has to match its strategy and supporting capability with the environment. Organizations that succeed therefore are those that are able to successful link their strategy to the external environment. Several research studies as discussed below have been conducted on the sugar industry in Kenya and it is clear that firms in the industry need to come up with competitive strategies that will guarantee them competitive advantage.

Okunyanyi (1999) studied reasons why sugar firms were failing to compete efficiently within the liberalized trading environment in Kenya and concluded that there were numerous taxes and levies by government that made locally produced sugar too expensive in comparison to imported sugar. Obado (2005) researched on competitive strategies employed by the sugar manufacturing firms in Kenya. He was able to establish that sugar firms utilized competitive strategies to gain market. According to him, sugar firms mainly utilized leadership and differentiation strategies with great emphasis on customer service, distribution and branding. None-the-less most of the firms still remained uncompetitive in both local and regional markets due to liberalization as attributed by many stakeholders in the industry.

Murgor (2008) studied strategic response of sugar companies in Kenya in the face of changing environmental conditions and concluded that the government needed to privatize all state owned sugar companies in order to make them more efficient. Lutta (2010) researched on the challenges of implementing a strategic plan in Mumias Sugar Company Ltd. She looked at the challenges facing implementation of the five year strategic plan of 2003 – 2008 of Mumias Sugar Company Ltd and established that the challenges were resistance to change, stakeholder support, poor policies, government involvement, education, training and employee involvement.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This Chapter outlines the research design, methods that were utilized in collecting data that was analyzed for purposes of answering the research question; What strategies has Mumias Sugar Company Ltd adopted to gain competitive advantage? (Creswell 1998) defines research methodology as what the activity of research is, how to proceed, how to measure progress and what constitutes success.

3.2 Research Design

The research was conducted as a case study which is a detailed investigation of individuals, groups, institutions or other social units (Kothari 2004).This research design was appropriate since it involves an in-depth understanding of the issues under review viz; strategies adopted by Mumias Sugar Company Ltd to achieve competitiveness in the market place. Case study provides valuable insight for problem solving evaluation and strategy (Cooper and Schindler 2003). This research design has previously been used by Mutua(2008), Ndede (2010) and Jowi (2010).

Yin (1984) looks at the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context. The boundaries between phenomenon and context are not clearly evident and multiple sources of evidence are used. Case study research is capable of bringing out an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research.

3.3 Data Collection

Both primary and secondary data were collected. Personal Interviews were conducted vide questions contained in an interview guide. Mumias Sugar Company Ltd has nine departments which are; Agriculture, Marketing and corporate Affairs, Finance, Factory, Sales and Distribution, Information Communication Technology, Legal Affairs, Human Resource and Internal Audit.(Mumias sugar Financial report 2011). Heads of these departments excluding Legal Affairs and Internal Audit which were considered useful in compliance rather than formulation of strategy were targeted for interview.

Notes from the interviews were recorded in field notebooks which proved to be useful during data analysis. Secondary data was obtained from Mumias Sugar Company's strategic plans and financial reports. Both primary and secondary data were carefully stored to enable easier retrieval and interpretation during analysis.

3.4 Data Analysis

Data analysis entails organizing the collected information with a view to getting answers as to the research question. Kothari (2004) points out that data analysis involves processing of the collected data in accordance with the outline laid down for the purpose at the time of developing the research plan. The data collected was qualitative in nature hence the analysis technique was content analysis.

Content analysis according to Krippendorff (2004), is a research technique for making replicable and valid inferences from texts (or other meaningful) matter to the contexts of their use. The data collected from the field were examined in order to find linkages between strategy initiatives put forward by the Company and the research question; what strategies has Mumias Sugar Company adopted to gain competitive advantage?

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter covers data analysis, interpretation and discussion of the research findings. It looks at the strategic management function in Mumias Sugar Company Ltd, the strategies the company has adopted to gain competitive advantage and finally discusses the findings comparing the same to theory and other empirical past studies.

4.2 Strategic Management at Mumias Sugar Company Ltd.

The strategic management function in Mumias Sugar Company falls under the corporate and marketing department headed by a director. The company has invested in consumer engagement and brand public relations to sustain awareness. This has been done by focusing on the youth as the primary targets to increase brand awareness vide initiatives such as title sponsorship of AFC Leopards football club which has a youth fanatical base nationwide, sponsorship of the schools national music and drama festivals and engaging youth in the cane growing areas in activities such as afforestation and clean up exercises. The company runs a strong corporate responsibility function which has been engaged in activities in the following areas, health, education, environment and water. Several activities related to these areas have been undertaken such as, sponsorship of eye camps, save Kakamega forest marathon, distribution of tree seedlings for afforestation purposes, support of school development programs and donation of computers to schools to support Information Communication Technology infrastructure. These initiatives as outlined in the company’s 2011 annual and financial report clearly indicate how strategic management is undertaken in this company.

Interviews carried out indicated that this department is the one charged with the overall mandate of ensuring that strategy succeeds. The department also oversees the marketing function which plays a critical role in creating the right image that enables the company differentiate itself and create a perception of excellence in the eyes of the customers. Initiatives such branding of sugar products, advertising of products, sponsorship of sports, health and environmental conservation are implemented through this department. The emergent pattern was that the company was utilizing mainly differentiation and diversification strategies to gain competitive advantage.

4.3 Strategies Adopted by Mumias Sugar Company Ltd to gain Competitive Advantage

Strategies adopted by Mumias Sugar Company Ltd to gain competitive advantage are guided by its vision and mission. Its vision is to be a world class producer of sugar and energy. The mission is to consistently satisfy consumer needs for sugar and energy through efficient and innovative practices while meeting the diverse expectations of all its stakeholders. This is clearly spelt out in the company's 2011 annual report and financial statements.

Analysis of data collected indicated the use of differentiation and diversification to gain competitive advantage. These two appeared to be the clear cut strategies embraced by this company to gain an edge over the competition in the market. Differentiation strategy is manifest in the following initiatives that management has put in place. The company sells branded sugar clearly showing the source of the product. Branding of sugar enables easy identification hence differentiation of the product from the rest in the market. The company packages its products in diverse sizes of a quarter, half, one, two and five kilogram packets which cater for all classes of consumers in the market place. A clear case of market segmentation to ensure the product is available to as much of the market as possible. Lately the company has availed fortified sugar to the market. The sugar is fortified with Vitamin A to cater for changing consumer needs which have created an avenue aimed at addressing, correcting, and preventing the known nutrient deficiencies amongst the Kenyan population.

The company has a strong corporate and marketing department headed by a director. Regular advertising of the company's products in the local media assists in reinforcing the products in the market. The company's corporate social responsibility function is strategic. The company is the major sponsor of AFC Leopards football club, a major football club in the country with a fanatic base nationally. The players don jerseys with Mumias Sugar clearly written on them whenever they play football league games thus fully advertising the company and entrenching its products in the consumers' minds.

The company has invested a lot in the construction and running of schools which post very impressive results in national examinations. Names such as Booker academy with their regular good performance in examinations are strongly associated with Mumias sugar hence the good performance translates to a perception of excellence in the company and its products. A perception that has greatly assisted the company differentiate itself from the competition. The company has also invested in hospitals which assist the local community alleviate its medical requirements. It is significantly involved in the routine maintenance of the road network within its zone of operations to ensure that cane from the farmers reaches the factory safely.

Diversification strategy is clearly visible in the following initiatives undertaken by the company, It has diversified into electricity generation which it utilizes for its own consumption and sells the excess to Kenya Power Company Ltd which is the sole licensed distributor of electricity in the country. It constructed and commissioned a 38 Mega Watts (MW) cogeneration plant in 2009 which presently produces 34 MW out of which 26MW is transmitted to the national grid. The company sells molasses which is a syrup, by-product from the processing of sugarcane into sugar to Industrial users, Individual users and traders. The company has finalized installing an ethanol production plant that they forecast is capable of converting their molasses output into 65,000 litres a day of ethanol. Water bottling and sale project, another initiative undertaken by company was completed in May 2012 and bottled water from Mumias Sugar Company Ltd brand named Sprinkles is presently available in the market.

The company has also gotten into a joint venture with Tana River Development Authority where it targets to commence growth of early maturing variety of sugarcane within the Tana River delta. This sugarcane project will be under 100% irrigation and the cost of sugar production is envisaged to be half of what is currently incurred by factories in Kenya. Future outlook is also focused on acquisition of government owned sugar milling firms that the government is interested in disposing off. Such include Nzoia and Miwani Sugar Companies(Mumias Sugar Company 2012)

4.4 Discussion

The ultimate desire of any business organization is to have competitive advantage in the market place. The organization's thoughts, goals, expectations and experiences should be towards achievement of this desire. Mumias Sugar Company Ltd is no exception. The research findings have clearly shown that the company has taken deliberate steps towards attainment of this objective in the sugar industry in Kenya.

Strategies employed by the company to gain competitive advantage were looked at from the viewpoint of models advanced by scholars in the field of strategic management such as generic strategies of cost leadership, differentiation and focus (Porter 1985) and growth strategies such market penetration, product development, market development and diversification(Ansoff 1987).

It is clear that the company has adopted differentiation and diversification strategies as advanced by the two strategy gurus to gain competitive advantage.

From the interviews conducted, it was evident that the company is running a modern milling factory equipped with skilled manpower, modern equipment, using efficient production technology and applying modern management and leadership practices all of which have enhanced efficiency. These findings are in tandem with those indicated in a similar research conducted on Competitive Strategies applied by Mumias Sugar Company Ltd. (Jowi 2006). The difference is that several factors such as globalization and vicious competition from new entrants have currently altered the environment significantly forcing the company to focus more on other strategies to enable it gain competitive advantage. These other strategies are differentiation and diversification. From the findings, it is evident that the company views the initial initiatives as being good but inadequate in fortifying it from the present day challenges. These other additional strategies are the vehicle that the company feels are capable of enabling it

achieve its vision and mission and ultimately gain competitive advantage. The findings also corroborate research conducted by Obado (2005) whereby he researched on competitive strategies employed by the sugar manufacturing firms in Kenya. He was able to establish that sugar firms utilized competitive strategies to gain market. According to him, sugar firms mainly utilized leadership and differentiation strategies with great emphasis on customer service, distribution and branding.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter gives a summary of the findings, conclusion, recommendations and suggestions for further study. It presents the final impression of the project assisting the readers in the process appreciate the strategies that Mumias Sugar Company Ltd has adopted to gain competitive advantage.

5.2 Summary of the Findings

The objective of the study was to establish strategies adopted by Mumias Sugar Company to gain competitive advantage. The study established that the company is aware of its strengths and weaknesses as well as opportunities and threats confronting it in its environment. It has thus taken deliberate steps in the form of strategies to gain competitive advantage in the sugar industry in the country.

Findings from the study give a picture of a company that has come to terms with happenings in the industry it is operating in. The management is aware of the factors that have a great bearing on decisions the company makes towards steering the company in the chosen direction. Management is also cognizant of its role in navigating the company through the various challenges towards the achievement of its vision of being a world class producer of sugar and energy, and the attainment of its mission of consistently satisfying consumer needs for sugar and energy through efficient and innovative practices while meeting the diverse expectations of all its stakeholders.

The research findings clearly indicate that the company has adopted differentiation and diversification strategies to enable it have an edge over its competitors in the market. The initiatives adopted under differentiation strategy include, branding of its sugar products, introduction of fortified sugar, aggressive advertising to reinforce products in the market, Strong corporate social responsibility function involved in sponsoring various activities such as football (AFC football club), education and health all of which have assisted in giving a positive image and thus making the consumer perceive the company as the better player.

Diversification initiatives include, electricity generation both for local consumption and sale to the national provider, sale of Mollasses, Ethanol production, Water bottling and sale, entering into a joint venture with Tana River Development Authority with a view to commence growth of early maturity variety of sugarcane and focusing on acquisition of government owned mills that the government intends to dispose off.

The adoption of the above initiatives has not been undertaken in isolation. Other initiatives such as having skilled manpower, utilization of modern technology and use of modern management techniques all of which tend towards cost minimization and thus cost leadership strategy have been put in place. However in order to catapult the company to greater heights and place it in the minds of the market as the better player, differentiation and diversification strategies have been focused on.

5.3 Conclusion

Key findings from this research have indicated that Mumias Sugar Company Limited has adopted differentiation and diversification strategies to gain competitive advantage. Interviews carried with Managers of the company as well secondary data from the company's annual reports showed a consistent pattern emerge. The sugar miller is positioned as a premier sugar producer providing quality goods and services to its clients. The goods and services are geared towards creating a perception of quality in the eyes of the consumers. Clearly differentiation and diversification emerged as the strategies that Mumias Sugar Company Ltd had adopted to gain competitive advantage.

5.4 Recommendations for Policy and Practice

Differentiation and diversification are strategy vehicles that have the potential of catapulting an organization to greater heights in the industry. Mumias Sugar Company Ltd can increase its initiatives related to these two strategies to further consolidate its position in the market. For instance the company can explore means and ways of utilizing the joint venture initiative under the present day devolved system of government. Specific devolved government units can work closely with the company to attain its vision and mission.

The government's willingness to dispose off poorly run milling firms is a good thing and should be encouraged. Strategically focused organizations like Mumias Sugar Company Ltd will then have an opportunity to acquire those firms and run them profitably. The same practice should be replicated in other sectors so that organizations that are able to diversify into other areas are availed the opportunity to do so.

5.5 Limitations of the Study

The study mainly compared initiatives by the company to strategy theories espoused by Michael Porter and Igor Ansoff in arriving at its conclusions. Other theories are available such as the Boston Consulting Group (BCG) matrix and grand strategy selection matrix by Pearce and Robinson which may have given a different position.

To fully study the adoption of strategy in an organization requires a more elaborate research than this, that would require more resources in form of time and personnel to carry out more detailed interviews with various managers in the company with a view to establishing the various strategy initiatives that have been put forward.

The study was limited in the number of respondents that were interviewed on a one-on-one basis. Seven Departmental Managers were targeted for interview but only five were interviewed. The rest were unavailable. This therefore meant that there was a limited source of information to infer conclusion from.

5.6 Suggestions for further Research

There is need for a more detailed study that incorporates many more theories on strategy than those utilized in this study. This will result in a more enriching report that will then be able to clearly inform on the strategies that Mumias Sugar Company has adopted to gain competitive advantage.

To undertake a more elaborate research requires much more in terms of resources than were availed for this research. More time and personnel need to be availed to carry out in depth interviews with the various stakeholders in Mumias Sugar Company Limited with a view to comprehensively coming up with the strategies adopted.

There is clearly need to expand the bracket of respondents to be interviewed. The views of various other stakeholders such as workers and farmers that supply sugarcane to the company would be able to enrich the findings of the research in showing whether the initiatives put forward are assisting the company gain competitive advantage.

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APPENDIX 1: INTERVIEW GUIDE

Section A: Introduction

Interview Date ---------------------------

Department --------------------------- Position ---

Explain the following to the interviewee.

- The purpose of the interview.
- The reasons for choosing the interviewee.
- How long the interview is expected to last.
- Interviewee's consent to be interviewed and the company's approval for the interview from the Marketing and corporate Affairs department.

Once the interviewee is comfortable, understands the objective of the interview and has consented to the interview, the session can commence.

Section B. Specific Information

1. Briefly state the department you work in, its objectives, your position and specific duties.
2. Kindly outline the strategies that Mumias Sugar Company Ltd has put in place in order to be competitive.
   - Prompt on the specific strategies.
3. How does your department contribute to the success of these strategies?
4. Who is involved in coming up with these strategies and how is this undertaken?
5. How are these strategies implemented within the various departments in order to guarantee success?

6. Please discuss the key external factors that contribute to the choice of strategies that Mumias Sugar Company has opted to undertake in order to be competitive?

7. What internal factors influence the choice of competitive strategies the company decides to pursue?

8. In your opinion, which factors have greatly influenced the choice of strategies pursued by the company, and why?

9. What are the challenges encountered in implementing strategies being pursued by the company?

10. What measures has the company put in place to overcome the challenges faced in strategy implementation?

Thank you very much.