

**THE EFFECT OF TRADE POLICIES ON THE PERFORMANCE OF  
COMMERCIAL STATE CORPORATIONS IN THE AGRICULTURAL SECTOR  
IN KENYA**

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## DECLARATION

This research project is my original work and has not been presented to any other examination body in any other University.

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

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## **DEDICATION**

I would like to dedicate this research project to my late father who encouraged me to pursue post graduate studies and to my husband for his patience and support as I pursued my studies.

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## **ABBREVIATIONS AND ACRONYMS**

CEO	Chief Executive Officer
CV	Coefficient of Variation
FAO	Food and Agriculture Organisation
GDP	Gross Domestic Product
MAFAP	Monitoring African Food and Agricultural Policies
OECD	Organisation for Economic Development
WTO	World Trade Organisation

## **ABSTRACT**

Trade policies influence businesses in many ways, such as create advantages and opportunities for organisations. Conversely, they can place obligations and duties on organisations in that they may enhance or restrict the ability of the businesses in fulfilling their goals and objectives. Trade policies do have the same effect in the markets for both private and public sector players but while private sector businesses have mechanisms to counter the adverse effects of these policies, the public sector corporations being used for strategic interventions have no other recourse because it is wholly owned by the government and thus are must abide by the instructions or directives given even if it will have an adverse effect on the bottom line. The key elements of trade policies are tariffs, duties, subsidies and quotas. The study reviewed the effect of trade policies on the performance of commercial state corporations in the agricultural sector in Kenya. The study established that the importation of cheaper goods results in unfair competition with locally produced goods of similar nature, leading to reduced sales of locally produced goods and forcing local manufacturers to cut down on production, thus having an adverse effect on the organization's performance. Subsidized products have a negative effect on the organization's marketing strategies and causes unfair competition between private businesses and subsidized government businesses. The study recommends that the findings be used to advocate for more autonomy in the management of the state corporations in order to achieve their mandate to be more competitive. It further recommends that further studies be carried out on the effect of trade policies on the performance of commercial state corporations in other sectors of the economy.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

In a globalised world it is inevitable that a country may wish to trade with other countries in order to obtain goods that it cannot produce while exporting goods that it can. This is regulated by formulating policies to guide such trading activities for the purposes of regulating inflows from other countries that could be detrimental to the local or domestic industries. Trade policy is a course of action a government may take intended to influence and determine decisions, actions and other matters in relation to trade, and this has an effect on the market place. Trade policies influence businesses in many ways, such as create advantages and opportunities for organisations. Conversely they can place obligations and duties on organisations in that they may enhance or restrict the ability of the businesses in fulfilling their goals and objectives. They influence the strategies developed by the business in terms of the products they produce and market, the prices they set for the products, the distribution and promotion strategies.

Trade policies do have the same effect in the markets for both private and public sector players but while private sector businesses have mechanisms to counter the adverse effects of these policies, the public sector corporations being used for strategic interventions have no other recourse because it is wholly owned by the government and thus must abide by the instructions or directives given even if it will have an adverse effect on the bottom line. The development of policies may be influenced by various factors in which they are formulated depending on which group

will benefit or be adversely affected by the implementation of a certain policy (Gawande & Krishna, 2002; Gow & Parton, 1992).

The study is anchored on the Public Choice Theory, Stakeholder Theory and the Agency Theory. These theories highlight the relational issues that arise between the organisations on the one hand and its owners, shareholders, the public and other stakeholders on the other in terms of expectations and how these expectations should be in order to enhance the organisation's performance.

Kenya's trade policies have had mixed results, showing a general increase in exports and imports, growing from 42.5% in the 1980s to 60% in 2007 (Were, Sichei & Milner, 2009), but the increase has been lopsided in favour of imports which have outstripped exports resulting in a trade deficit for Kenya (the EA Standard, 2015). The trade liberalisation policy for instance in the agricultural trade has led to an increase in the imports of foodstuffs such as sugar, rice and wheat, which are cheaper coming in at lower prices and have dampened domestic production (Nyangito & Okello, 1998).

### **1.1.1 Concept of Trade Policies**

A trade policy is a set of rules and regulations that guide the exchange of goods and services between two countries and may include taxes, subsidies and import or export protocols. It stipulates the standards, goals, rules and regulations that relate to international trade and tend to be country specific. The aim of having such a policy is to boost a country's international trade and grow its economy. The key elements of trade policies are tariffs, trade barriers and safety issues. Tariffs are taxes imposed on imported and exported goods aimed at regulating the inflows or outflows of a country, while trade barriers are restrictions imposed by the state on trading a particular

product or with a specific nation. Some of the most common forms of trade barriers are tariffs, duties, subsidies, embargoes and quotas. Safety issues pertains to the quality of products being imported into the country based on the standards set by the importing country ([www.economywatch.com](http://www.economywatch.com), 2015).

The benefits of international trade are that cheaper products can flow into the country to the advantage of the consumers as well as to broaden the range of quality goods and services available to them. Companies can access cheaper inputs that reduce their production costs. It also increases competition and encourages innovation acting as a spur to increase efficiency and cut costs or it may act as an incentive for an economy to shift resources into new industries where they can maintain a competitive advantage (Pettinger, 2012). But opening up international trade can adversely affect some firms and industries resulting in job losses and loss of domestic production (Madeley, 2000).

Some countries tend to protect their industries from adverse competition however Kwaku (2009) believes that this action would go against the theory of comparative advantage which advocates for reducing trade barriers leading to gains from trade for all concerned. He states that what should be done is balance the equation between trade.

### **1.1.2 Organisational Performance**

Performance is the most important criterion used in evaluating organisations (Richard, Devinney & Yip, 2009). Lebars and Euske say that organisational performance is a set of financial and nonfinancial indicators which offer information on the level of achievement of objectives and results of an organisation. The financial performance indicators include profits or return on investment, while the market performance

indicators include sales, market share, among others; and shareholder return (as cited by Gavrea, Ilies & Stegorean, 2011). Financial performance is among the commonest measure used to assess the performance of an organisation. It is a subjective measure of how well a organisation can use its assets from its primary mode of business to generate revenue. It is also a general measure of an organisation's overall financial health over a given period of time and thus can be used to compare organisations across the same industries or sectors in aggregate (Adongo & Jagongo, 2013).

An organisation sets goals and objectives and develops strategies on how it will go about achieving those objectives. It also involves assessing the factors that affect the organisation's ability to achieve its set goals and objectives, such as environmental factors, both internal and external, which enhances or hinders the performance of the organisation. The success of any organisation is dependent on several factors such as leadership management style, employee motivation and satisfaction levels, facilities and the political legal environment. Any or all of the above factors will determine the direction the organisation is heading to as far as its performance is concerned (Birech, 2011). Environmental factors can affect both strategy and organizational performance of an organisation thus becoming a constraint upon the organisation's strategy.

### **1.1.3 Commercial State Corporations**

State corporations have undergone several reforms since their establishment in 1963 aimed at achieving the following objectives: to accelerate economic social development; to redress regional economic imbalances; to increase Kenyan citizen's participation in the economy; to promote indigenous entrepreneurship; and to promote foreign investments (Sessional Paper No. 10 of 1965). In 1992 the Government initiated a comprehensive state corporation reform programme aimed at addressing

the incessant poor performance of the state corporations and their drain on the Exchequer as well as stimulating the private sector into taking up more of the roles that the state corporations were carrying out (Policy Paper on Public Enterprise Reform and Privatisation Programme, 2005; Were, Ngugi, Makau, Wambua & Oyugi, 2005). One of the main objectives of the reforms was to enhance the returns on the country's resources by achieving greater efficiency in both private and public enterprises through greater responsiveness to market signals and commercial criteria.

The reforms resulted in some non-strategic state corporations being privatized, while key strategic ones retained. These were categorized into commercial, regulatory, tertiary, research, among others. The commercial state corporations were required to operate commercially, that is, carry out trading activities profitably in the competitive market and compete with the private sector. They were also required to take care of their own operating expenses without recourse to the Exchequer. In recent times the commercial state corporations are required to submit dividends to the government which is their major shareholder (100%) at the end of each financial year (10<sup>th</sup> Performance Contracting Guidelines, 2013). This changed the way in which commercial state corporations have operated and they have had to adopt more modern management techniques as practiced by the private sector. Towards this they have adopted the use of planning tools such as strategic plans, business or marketing plans with specific marketing strategies to be implemented, such as the marketing mix strategies, which include the pricing strategies. Essentially this means that they experience the same market environmental factors (both internal and external) as the private sector.

The performance of state corporations has been of concern for a long time, not only in Kenya, but worldwide, where all have one thing in common – the vast amount of resources they consume but with poor results in return. Most view that the resources consumed by these entities are better utilised elsewhere such as in the provision of other public services. Miringu, 2009 (as cited by Guzeh, 2013) states that by 1991, about 1 percent of Gross Domestic Product was paid out by the central government as subsidies to state corporations due to their dismal performance in the previous year. In a two year period, between 1990 and 1992, the government of Kenya had transferred about Kshs 7.2 billion as direct subsidies and Kshs 14.2 billion as indirect subsidies to state corporations in Kenya.

## **1.2 Research Problem**

Businesses are established to provide a customer service or product for which a significantly large number of people are ready to buy at a profitable price and the mobilisation of resources to provide the service or product. While doing this, the shareholders expect the business to carry out the business profitably and pay dividends at the end of the financial year. But businesses do not operate in a vacuum or a perfectly predictable and controllable external environment. There are various factors in the external environment that the business must take cognisance of and determine their effect on the business as a whole and take remedial measures, if necessary, to reduce any threats to the business. Key among these factors are government policies, laws or regulations. Trade policies have a big impact on how organisations conduct their business. They are meant to protect the rights of both the businesses as well as those of the consumer ensuring a level playing field to the benefit of all stakeholders. The policies can have both a positive effect as stated



above, or can have a negative effect that require businesses both private and public take remedial measures to adapt to the new conditions.

Studies indicate that trade policies have mixed effects on the businesses. For export oriented firms the trade policies lead to the growth of exports and therefore having a positive effect on performance of the organisation (Dauth, Findeisen, & Suedekum, 2013; Zafar, 2007; Kwaku, 2009) But for import sensitive firms, trade policies significantly increased competition due to similar but cheaper imports resulting in the collapse of the local firms due to their inability to develop coping strategies to fight the competition (Tekere, 2001).

In Kenya, the effects of trade policies have basically shown the same trend affecting both private and public sector firms, although in most cases trade liberalisation has impacted negatively on organisations (Were, 2009; Chemingich, 2013). Most of the studies carried out are mostly concerned with the impact of trade policies on the economy (Gertz, 2008) and sector performance (Nyangito & Okello, 1998). Ogillo (2014) carried out a study on response strategies to threats of rice imports while Mwambua (2014) analysed the effects of globalisation on state corporations. These studies identified the various challenges experienced from the liberalisation process but did not touch on policy issues. Therefore this study attempts to fill the gap by answering the question: do trade policies have an effect on the performance of state corporations in the agriculture sector in Kenya?

### **1.3 Research Objectives**

The main objective of this study is to establish the effect of trade policies on organizational performance of commercial state corporations in the agriculture sector in Kenya.

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

The findings of this study will be of benefit to Government of Kenya, the Chief Executive officer of state corporations and the body of knowledge. For the Government the findings will provide insights into how commercial state corporations are equally affected by trade policies as the private sector and that this has an effect on their performance. This will enable government develop mechanisms to support those state corporations that are unable to effectively cope with the competition. The recommendations may have policy implications that can be used to improve the management and autonomy of the state corporations. The Chief Executive Officers or Managing Directors of state corporations may use the results of the study as a basis of advocating for more autonomy in the management of the state corporations in order to achieve their mandate to be more competitive. The study shall add on to the already existing knowledge on state corporations operating in the commercial sphere, the challenges they experience and the successes and the failures. The study will reveal further gaps that can be used as a source of future research studies, especially on the effects of policies on organisational performance in general.

#### **1.5 Chapter Summary**

This chapter has given the background of the study, including the commercial mandate of state corporations and the external environment in which they operate. Various factors in the environment such as government policies and regulations influence the strategies that organisations develop as they try to counter competition and achieve their goals of making profits. The chapter has described what trade policies are and their impact on organisations. It has highlighted the indicators of organisational performance and their importance in measuring performance of

individual organisations as well as provides a basis of comparison for organisations across industries. It has highlighted the gap that exists in previous studies done on factors affecting the performance of state corporations and the set objective of the current study. The chapter has concluded with the value of the study to Government, the chief executive officers of state corporations and the body of knowledge.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews literature related to the current study. The chapter presents theories that explain factors that contribute to the performance of organisations. It shall also examine empirical studies that support the impact of various market interventions on businesses.

#### **2.2 Theoretical Foundation**

##### **2.2.1 Public Choice Theory**

James Buchanan and Gordon Tullock in 1986 came up with the public choice theory to dispel the motives of government actions. Government intervention have for a long time been seen as a cure for market failure, but this view has since changed after many cases where government has also failed, that is, when the government interventions have not achieved their intended effect (Mueller, 2003). The central theme of the public choice theory is self-interest by individuals especially politicians and bureaucrats. Shaw (2002) said that generally individuals are motivated mainly by self-interest even when they are supposed to work for or serve others. Shughart (2008) gives instances of self-interest by illustrating how voters support their favourite candidates whom they think will make their lives better through developing their localities; the bureaucrats who are interested in furthering their own careers; while politicians who seek election or re-election to office. Niskanen (1994) describes the behaviour of public sector bureaucrats by stating that “while they are supposed to work in the public interest, putting into practice the policies of government as efficiently and effectively as possible, public choice theorists see

bureaucrats as self- interested utility-maximizers, motivated by such factors as: salary, prerequisites of the office, public reputation, power, patronage ... and the ease of managing the bureau."

Anthony states that voters do not have the incentives to efficiently monitor the actions of the politicians largely because their ignorance of political issues therefore reducing the likelihood for good management for public interest (as cited in Shaw, 2008). Politicians generally determine the direction state corporations should take since they (the politicians) use them as channels for delivering services to its citizens (Mbo & Adjasi, 2013). As a result the state corporations have to forego their profit maximisation objectives for purposes of fulfilling socio-political objectives. The only way in which state corporations could be successfully restructured and turned to profitability is to reduce the interference by politicians (Xu et al, 2001, as cited in Mbo & Adjasi, 2013).

### **2.2.2 Stakeholder Theory**

The underlying theme of the stakeholder theory is the management of the relationships between the firm's managers and the firm's stakeholders and that the firms that do so generally perform better in the longer run than firms that do not. "Managers must develop relationships, inspire their stakeholders and create communities where everyone endeavours to deliver the firm's promises and create value over time (Freeman, Wicks & Parmar, 2004). Stakeholders include shareholders, creditors, managers, employees, customers, suppliers, local communities and the general public, each of which supply the organisation with resources and in exchange each stakeholders expects its interests to be satisfied. Shareholders provide capital and in return expect that the return on investment is

maximised, and creditors provide finance expecting that the loans will be back on time. Managers and employees give of their time and skills in exchange for fair pay and a good working environment, while customers who buy the firms' goods and services expect value for money. The general public and the local communities expect good corporate citizens in exchange for availing location and infrastructure.

The theory can be applied to both the private and public sectors corporations. The latter is seen when the government influences management because they control three key strategic resources: authority, markets, and property rights. Governments may use their power over state corporations to directly and indirectly influence strategy, management style and structure. This is when the government appoints the Chief Executive Officers (CEOs) and the directors of the Board of state corporations, actually participating in meetings of the Boards of directors, and providing direct or indirect subsidies. Governments may also gain influence through markets which can have varying degrees of openness (free market) or control (closed market). The theory demands managers to reconcile the needs of all their stakeholders in the way they run their businesses making it very applicable to the case of public enterprises buffeted by stakeholders who have divergent needs and objectives including those of a social nature along with the profit motives (Wicaksono, 2009 as cited by Mbo & Adjasi, 2013).

### **2.2.3 Agency Theory**

Agency theory by Jensen and Meckling (1976) examines the relationship between owners (principals) of organisations and the managers (agents) appointed to run the organisations. The principals hire the services of the agents to perform a given job, which in most cases is to maximize the value of the firm. But as in every kind of

relationship, there is likely to be some friction arising due to different viewpoints between the individuals that do not match. The theory suggests that one of the ways of minimising the conflict between the principals and the agents is for the former to give the latter financial incentives for maximising shareholder's interest (Eisenhardt, 1989).

But in the case of state corporations, however, Mbo and Adjasi (2013) observed that earlier empirical evidence of Chinese and Indian state corporations indicated that it is not always practical for Boards to act against the will of a dominant shareholder (principal) citing Rajagopalan and Zhang (2008). In the case of state corporations, the government is in most cases the dominant shareholder and will exert its power in any management decisions, be it for profitable or not. Mwaura (2007) blamed the poor performance on the board of directors of state corporations due to the existence of multiple agents. He observed that state corporations are governed by multiple agents, namely managers and the state or public officials. He considered voters, who elect public officials as principals of both the board of directors and the State. He attributed the inefficiencies to the agents (that is public officials) who have the powers to appoint Board members and issue managerial directives that "do not always act in the best interest of state corporations, but in the interest of voters who can vote them out" and it is from this that agency conflict arises. Mwaura concludes by saying that this makes it difficult for directors to act in the best interests of state corporations because the government sometimes requires them to pursue political interests in order to meet the expectations of a strategic element of the electorate (the voter) against better economic performance for the state corporations.

Cuervo-Cazurra et al. (2014) provide another perspective that brings together the managers of the state corporations, the politicians and citizens creating a dual agency

problem. They consider that state corporations as being owned by the citizens of the country therefore acting as the principals, charging the politicians, acting as agents, to achieve the social and economic objectives of the state corporations. In turn, the politicians, as principals, give the managers of the public enterprises, acting as agents, the mandate to achieve their own objectives. As a result the objectives of politicians tend to differ from those of the citizens because the politicians want to remain in power yet the citizens are seeking better performance from state corporations and this conflict leads to the poor performance of state corporations.

### **2.3 Trade Policies and Organizational Performance**

Trade policies between countries allow for the flow of goods from one country to another for mutual benefit, in that diverse products become available to the importing country which would otherwise not be available to the consumers. The imported items may be also cheaper and more affordable than locally produced goods in essence giving the consumer a choice to select from. In that case the cheaper imported goods provide stiff competition to the locally manufactured goods leading to huge losses in unsold stocks. The result is reduced profitability leading to lower performance.

Nhlabatsi (2014) carried out a wider study covering African countries noted that the effects of cheap Chinese goods on Africa's industries were declining sales, profit reduction, problems in cash flow and return on investment and the inability to raise capital. In some instance, industries were forced to shut down leading to significant job losses. Other studies further demonstrate the relationship between trade policies concerning imports and the performance of businesses that produce similar products. Gebre-Egziabher (2007) in his studies was able to demonstrate the impact of cheap



imports of footwear on local Ethiopian manufacturers that varied from downsizing, bankruptcy, loss of assets and property to down grading activities and informalizing operations basically threatening the sector's competitiveness in the domestic market. Ghana's local poultry industry went into decline and even closure of some local operations due to government policies on trade liberalization in the industry (Chisenga, Memsah & Sam, 2007). The textile sector in Zimbabwe was also severely affected by heavy competition from foreign players resulting in the rationalization of production, cutting down on production levels, reduction of workforce, low capacity utilization, company bankruptcy and closures (Tekere, 2001). In the above cases the local industries were unable to compete with the cheaper imports for which customers preferred.

The sugar industry in Kenya has been similarly affected by imports from the international markets. Kenya is a net importer of sugar due to its inability to produce enough sugar to meet local consumption needs but the imports are supposed to be managed by quotas and tariffs. Due to the insufficient administration of these quotas and high local retail prices have allowed importer "syndicates" to obtain profit margins that more than double those of local producers (MAFAP, 2013). Political interference in the sector has seen the policy on sugar importation being ignored resulting in negative repercussions on the industry where the sugar companies have been unable to sell off their stocks of sugar leading low performance. Wanyande (2001) observed that the problems in the sugar industry are mainly due to government policies and interference which does not favour efficient performance of the state corporations involved in the production of sugar".

But other studies indicate that import competition should be able to force domestic producers to quickly innovate so as to compete effectively and stimulate growth or otherwise be driven out of the market (Baldwin, 1992). Import competition has also resulted in the growth of companies. Several studies have indicated that trade liberalisation policy has had a positive effect on performance in Ghana (Dziwornu, Sarpong & Kwadzo, 2007), and in Ethiopia (Bigstein, Gebeeyesus & Soderbom, 2009) achieved through lower import tariffs that allow for the importation of cheaper inputs leading to higher productivity for firms.

Subsidies also form part of trade policies and are defined by Food and Agriculture Organisation (FAO) as government policies in aid of one or more industries, usually carrying a financial benefit to the industry. The World Trade Organisation (WTO) in its definition of subsidies considers the different forms as direct or potentially direct transfers of funds from governments to firms or individuals, government provision of goods and services at less than market prices, and government support of prices and incomes. For instance, agricultural subsidies are given by governments to farmers and agribusiness to supplement their income, manage supply of agricultural commodities, and influence the cost and supply of such commodities (Solunke & Deshmush, 2012). The main objective of introducing subsidies is to reduce the price of particular goods and services for purposes of achieving certain objectives such as availing cheaper goods and services for a targeted group of people or even the whole population of a country. Subsidies generally lower open market prices of products making them more affordable to the public but competing unfavourably to similar products being produced by the other players in the market, in effect crowding them out (Takeshima et al., 2012). This is because the consuming public would prefer to purchase a product at a lower price so that they can make a saving. As a result the

demand for the products being offered by the other players in the market at market rates is reduced and their businesses are unable to make high volume sales. Subsidised goods and services take away businesses from the other players in the market leading to unsold stocks and lower sales volumes and therefore reduced revenue generation (Dorward, 2009). The result for such businesses is lower levels of profitability which in turn negatively affects the return on investments and return on assets (Frederick & Selase, 2014).

Other ways in which the subsidies can distort the market is through the publicity surrounding the supply of the subsidised products that tends to overshadow the availability of the products sold by other market players. Publicity in itself is a promotion activity that positions the subsidised products in the mind of the farmer or the public diverting their attention to the subsidised product and away from the products of competing players (Daily Nation, 2012).

Subsidies paid directly to organisations in order to keep the price of inputs low can also interfere in the running of the business in terms of cost control, responsiveness to market conditions and being innovative (Schulyer, 2009). Delays in the payment of the subsidies long after the organisations have sold the products at the subsidised price, which is below cost, can affect the cash flow of the organisation reducing its ability to meet its financial obligations to its creditors, employees as well as hindering the organisation from exploiting other business opportunities (The Standard, 2014). This may force the organisation to finance its operations using loans which attract interest thus further decreasing the organisation's profitability (Akinlo & Asaolu, 2012).

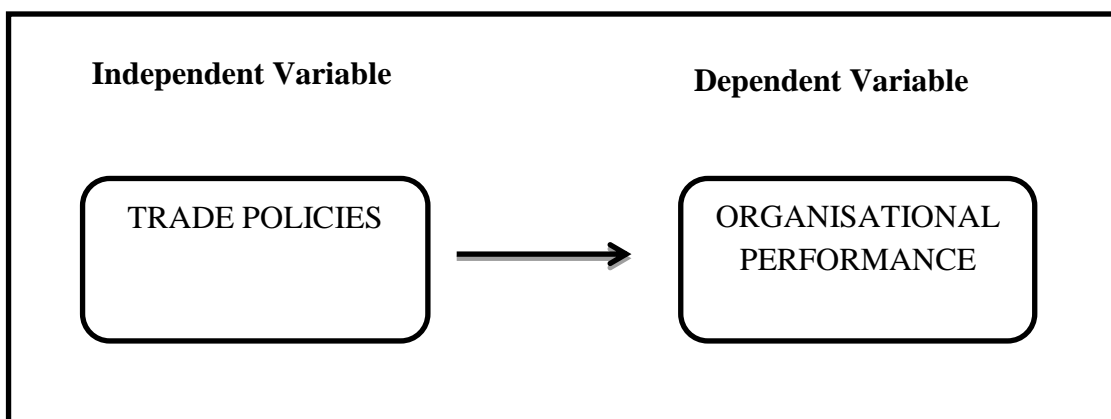
## 2.4 Summary of Knowledge

The review of literature reveals that government policies, while having beneficial intentions in the short run, do have long lasting distortionary effects on markets as a whole. They also have an effect on the performance of businesses in terms of pricing, product, sales and profits. Based on the review done, the researcher identified a gap in the literature with respect to the effect of government trade policies on the performance of commercial state corporations. Most of the literature is focussed on the effect of government policies on the private sector and their impact on private businesses or on the performance of state corporations as in direct competition with the private sector enterprises and does not consider a case in which the government itself can be in direct competition with the state corporation itself when it, for instance, gets into business and provides a product to the market in direct competition with businesses (both public and private) that supply the same products.

## 2.5 Conceptual Framework

This conceptual framework shows the relationship between the independent and the dependent variables. The independent variable is trade policies, while the dependent variable is the organization performance. This relationship is shown in Figure 2.1.

**Figure 2.1: Conceptual Model**



Source: Author (2015)

## **2.6 Chapter Summary**

The chapter has presented three theories that support the study namely the Public Choice Theory, Stakeholder Theory and the Agency Theory. These theories explain the conflicts that arise between various stakeholders in terms of their varying expectations and motives. The chapter has also reviewed relevant studies done on the influence of trade policies on local businesses in terms of competition arising from cheaper imports or subsidies. The pertinent studies revealed that trade policies do have both positive and negative effects on the performance of businesses.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter discussed the research design and population of the study, the data collection methods, data collection and data analysis.

#### **3.2 Research Design**

The researcher used the descriptive research design because this type of design was appropriate in describing the market characteristics under study. Descriptive research design is a type of conclusive research that has the major objective of describing something, usually market characteristics or functions (Malhotra, 2006). It is useful whenever research questions relate to describing phenomenon such as identifying relationships.

#### **3.3 Population of Study**

Mugenda and Mugenda (2003) describe population as all the elements that meet the criteria for inclusion in a study. The population of study comprised of all commercial state corporations in Kenya which number 55 (Report of the Presidential Taskforce on Parastatals Reforms, 2013). From this a sample was drawn of commercial state corporations in the agriculture sector in Kenya which number 14 but because 2 of them are subsidiaries based in Uganda and Tanzania which are beyond the scope of the study which is confined to Kenya, the number was reduced to 12 state corporations. The state corporations were as follows; Agrochemicals And Food Company; Kenya Meat Commission; Muhoroni Sugar Company; Nyayo Tea Development Corporation; South Nyanza Sugar Company; Chemelil Sugar Company; Nzoia Sugar Company; Simlaw Seeds Kenya; Kenya Animal Genetics Resource

Centre; Kenya Seed Company; Kenya Veterinary Vaccine Production Institute and National Cereals And Produce Board. Data was collected from Marketing Managers of the identified state corporations. Due to the small sample size, a census was used to collect data. This increased the reliability and validity of the findings (Malhotra, 2006).

### **3.4 Data Collection**

Primary data was collected through the use of questionnaires. A questionnaire is a pre-formulated written set of questions to which the respondents record the answers usually within rather closely delineated alternatives. The choice in selecting this tool of collecting data was guided by the available time as well as by the objectives of the study. A five point Likert scale questionnaire was used. A Likert scale is an interval scale that specifically uses five response categories ranging from strongly disagree, disagree, neutral, agree and strongly agree, which requires the respondents to indicate their degree of agreement or disagreement with each statement (Malhotra, 2006). Likert scales are easy to construct and administer and easy for the respondent to understand. The questionnaire included open ended questions for purposes of seeking further clarification and it was divided into two parts - part one concerned obtaining demographic information of the respondents and part two aimed to obtain information on the effects of trade policies on organisational performance. The questionnaire was administered to the management staff through drop and pick method. The questionnaires were self-administered because all the respondents were literate. The researcher went back and collected the completed questionnaires for data analysis.

Secondary data was used to complement the primary data. This data was collected from documented materials relevant to the area study using document analysis techniques. Secondary data included publications from the state corporations, research

papers, government publications, journals, newsletters, annual reports, company websites and the daily newspapers.

### **3.5 Data Analysis**

The primary data was analysed using descriptive statistical analysis. Quantitative analysis was used in analysing the closed ended questions and it entailed the use of a statistical package in the analysis. The analysed data was presented and interpreted through frequency tables showing the mean and the standard deviation. The coefficient of variance was calculated to determine the variability of the data. Qualitative analysis was used to analyse open-ended questions as stated by the respondents.

### **3.6 Chapter Summary**

The chapter has described the descriptive cross sectional research design. It has listed twelve commercial state corporations as the population in which the study was carried out. A census study was conducted because of the small population size. The data was collected using a 5 point Likert type scale questionnaire. Descriptive statistical analysis was used to analyse the data and the results presented in frequency tables.



## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter presents the analysis and interpretation of the data collected pertaining to the research objectives of the study. It explains how the data was analysed and gives the findings and interpretations of the findings.

#### 4.2 Presentation of Findings

The objective of the study was to establish the effect of trade policies on the performance of commercial state corporations in the agricultural sector in Kenya. Primary data was collected through use of questionnaires which were administered to the Marketing Managers of the state corporations. The study employed descriptive statistical analysis to analyse the data collected. The findings were summarized and presented in the form of tables.

##### 4.2.1 Gender Distribution

The study sought to establish the gender distribution of the respondents and the findings are shown in Table 4.1.

**Table 4.1: Gender Distribution**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	7	58
Female	5	42
<b>Total</b>	<b>12</b>	<b>100</b>

Source: Primary Data

The research findings revealed that the majority of the respondents were male at the rate of 58% whereas 42% of the respondents were female. This implies that respondents were fairly distributed in terms of their gender.

#### 4.2.2 Respondents' Age Distribution

The research sought to establish the age of the respondents and the findings are shown in Table 4.2.

**Table 4.2 : Age**

<b>Age</b>	<b>Frequency</b>	<b>Percentage</b>
Upto 34 years	1	8
35-44 years	4	33
45-55 years	5	42
Over 55	2	17
<b>Total</b>	<b>12</b>	<b>100</b>

Source: Primary Data

The findings showed that majority of the respondents were between the ages of 45-55 years at 42%, followed by 33% of the respondents between 35-44 years. This implies that the respondents were well experienced and that they would respond to the questions with ease.

#### 4.2.3 Period of Service

The study sought to establish the period which the respondents had served for in the company and the findings presented in Table 4.3.

**Table 4.3: Period of Service**

<b>Period of service</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 2 years	1	8
2-5 years	3	25
6-10 years	4	33
11 years and above	5	42
<b>Total</b>	<b>12</b>	<b>100</b>

Source: Primary Data

From the research findings, the study revealed that majority of the respondents as shown by 42 % had served the company for more than 11 years whereas 33 % of the respondents had served the company for a period between 6 to 10 years. This implies that the majority of the respondents had served the company for a considerable period of time and thus they were in a position to give credible information responses to this research.

#### **4.2.4 Level of Education**

The study sought to establish the level of education of the respondents and findings are presented in Table 4.4.

**Table 4.4: Level of Education**

<b>Level of education</b>	<b>Frequency</b>	<b>Percentage</b>
Diploma Certificate	1	8
Higher Diploma	2	17
Bachelors	4	33
Masters	3	25
PhD	2	17
<b>Total</b>	<b>12</b>	<b>100</b>

Source: Primary Data

From the research findings, 33% of the respondents were holders of a Bachelor's degree while 25% were holders of a master's degree. This implies that the respondents were educated and they were in a position to answer the questions with ease.

#### **4.2.5 Position in the Organization**

The study sought to establish the position of the respondents in the organization. The findings are presented in Table 4.5.

**Table 4.5: Position in the Organization**

<b>Position in the organization</b>	<b>Frequency</b>	<b>Percentage</b>
Supervisory	3	25
Middle management	4	33
Senior management	5	42
<b>Total</b>	<b>12</b>	<b>100</b>

Source: Primary Data

From the research findings, 42% of the respondents held the senior management position, 33% held the middle management position while 25% held the supervisory position. This implies that the respondents would answer the questions perfectly since they had a wide knowledge about the companies.

#### **4.2.6 Effect of Trade Policies on Organizational Performance**

The study sought to establish the extent to what respondents agreed with various statements relating to the effect of trade policies on organizational performance. The mean scores and standard deviations for the responses for each of the statements were computed and the findings are presented in Table 4.6.

**Table 4.6: Effect of Trade Policy on Organizational Performance**

<b>Effect of trade policy on organizational performance</b>	<b>Mean</b>	<b>Standard deviation</b>	<b>Coefficient of Variance (%)</b>
Trade liberalization policies results in importation of cheaper goods.	4.25	0.20	4.70
Importation of cheaper goods competes unfairly with locally produced goods of similar nature.	4.58	0.26	5.68
Importation of cheaper goods results in cutting down of local production.	4.33	0.22	5.08
Cheap imports results in reduced sales for local manufacturers.	4.50	0.24	5.08
Government should protect local industries against cheap imports.	4.00	0.17	4.25
Protecting local industries from cheap imports does not necessarily increase their efficiency or competitiveness.	4.42	0.23	5.20
Competition of cheaper goods makes local manufacturers more innovative.	4.75	0.30	6.32
Cheap unregulated imports have an adverse effect on the organization's performance.	4.08	0.18	4.41
<b>Overall</b>	<b>4.36</b>	<b>0.23</b>	<b>5.09</b>

Source: primary data

From the research findings, majority of the respondents strongly agreed that competition from cheaper goods makes local manufacturers more innovative as shown by a mean of 4.75, importation of cheaper goods compete unfairly with locally produced goods of similar nature as shown by a mean of 4.58 and that cheap imports results in reduced sales for local manufacturers as shown by a mean of 4.50. Others agreed that protecting local industries from cheap imports do not necessarily increase their efficiency or competitiveness as shown by a mean of 4.42, importation of cheaper goods results in cutting down of local production as shown by a mean of 4.33, trade liberalization policies results in importation of cheaper goods as shown by a mean of 4.25 and cheap unregulated imports have an adverse effect on the organization's performance as shown by a mean of 4.08. The overall mean of 4.6 indicates that trade policies do have an effect on performance. The overall standard deviation of less than one indicates that there is no significant variation in the responses. While the overall coefficient of variation (CV) of 5.9% shows that the data is fairly homogeneous.

#### **4.2.7 Effect of Subsidies on Organizational Performance**

The study sought to establish the extent to which respondents agreed with the statements relating to the effect of subsidies on organizational performance. The mean scores and standard deviations for the responses for each of the statements were computed and the findings are presented in Table 4.7.

**Table 4.7: Effect of Subsidies on Organizational Performance**

<b>Effect of subsidies on organizational performance</b>	<b>Mean</b>	<b>Standard deviation</b>	<b>Coefficient of Variance (%)</b>
Subsidies have a positive effect on consumers	4.25	0.20	4.7
Subsidized products distort the inputs market	4.00	0.16	4.0
Subsidized products have a negative effect on the organization's marketing strategies	4.50	0.24	5.33
Subsidized products have an effect on the organization's sales of inputs	4.08	0.16	3.92
Subsidized products have an effect on the organization's performance	4.58	0.26	5.68
Subsidized products have a crowding out effect on commercial input demand	4.17	0.20	4.80
Subsidized products cause unfair competition between private businesses and subsidized government businesses.	4.42	0.24	5.43
<b>Overall</b>	<b>4.28</b>	<b>0.21</b>	<b>4.84</b>

Source: primary data

From the research findings, majority of the respondents strongly agreed that subsidized products have an effect on the organization's performance shown by a mean of 4.58 and subsidized products have a negative effect on the organization's



marketing strategies shown by a mean of 4.50. Others agreed that subsidized products cause unfair competition between private businesses and subsidized government businesses shown by a mean of 4.42, subsidies have a positive effect on consumers shown with a mean of 4.25, subsidized products have a crowding out effect on commercial input demand shown by a mean of 4.17, subsidized products have an effect on the organization's sales of inputs shown by a mean of 4.08 and subsidized products distort the inputs market shown by a mean of 4.00. The overall mean of 4.28 indicates that the overall agreement that subsidies have an impact on the performance of an organisation. The overall standard deviation is less than one hence no significant variations in the responses. The overall coefficient of variation (CV) of 4.84% indicates that the data is fairly homogeneous.

#### **4.2.8 After Tax Profit and Total Sales Performance**

The state corporations were asked to indicate their after tax profits and the sales for a period of 5 years. The data for the 12 state corporations was summated and the average determined for each year under study. The findings are presented in Table 4.8.

**Table 4.8 Performance Indicators of State Corporations**

<b>Performance Indicator</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Average</b>
After tax profit (Kshs in millions)	3,369.31	3,359.24	3,412.72	5,170.9	5,908.9	<b>4,244.21</b>
Total sales (Kshs in millions)	6,897.20	9,396.61	12,876.3	5,969.8	9,867.2	<b>9,001.42</b>

Source: Various Reports from Commercial State Corporations

The study findings show that the average of after tax profit of the state corporations was Kshs 4,244.21 million while the average total sales of the state corporations was Kshs 9,001.42 million. The findings show that there was a general increase in after tax profit peaking in 2014 to Kshs 5,908.86 million. The total sales year on year was highest in 2012 had the highest total sales as Kshs 12,876.32 million. The findings show that the after tax and total sales performance for the state corporations was not constant year after year but they were operating under profits. In general, the after tax and total sales performance averages indicates slight improvement in performance across the period 2010-2014.

#### **4.3 Discussion**

The study established the effect of trade policy on organizational performance. It indicated that competition of cheaper goods makes local manufacturers more innovative. This is because every company strives to achieve the best and curb the other competitors. The study also found out that importation of cheaper goods compete unfairly with locally produced goods of similar nature and also the importation of cheaper goods results in cutting down of local production. However, import competition also resulted in the growth of companies. The findings are in line with Baldwin, (1992) who stated that import competition should be able to force domestic producers to quickly innovate so as to compete effectively and stimulate growth or otherwise be driven out of the market.

The study found that protecting local industries from cheap imports does not necessarily increase their efficiency or competitiveness. Trade liberalization policies

result in importation of cheaper goods that are more affordable than locally produced goods in essence giving the consumer a choice to select from.

The study found that subsidized products have an effect on organizational performance. The main objective of introducing subsidies is to reduce the price of particular goods and services for purposes of achieving certain objectives such as availing cheaper goods and services for a targeted group of people or even the whole population of a country. The findings are in line with Solunke and Deshmush, (2012) who stated that agricultural subsidies are given by governments to farmers and agribusiness to supplement their income, manage supply of agricultural commodities, and influence the cost and supply of such commodities.

Takehima, (2012) noted that subsidies generally lower open market prices of products making them more affordable to the public but competing unfavourably to similar products being produced by the other players in the market, in effect crowding them out. The study findings indicated that subsidized products have a negative effect on the organization's marketing strategies. Subsidized products cause unfair competition between private businesses and subsidized government businesses.

The findings established that subsidized products have a crowding out effect on commercial input demand and distort the inputs market. They have an effect on the organization's sales of inputs. The findings are in line with Dorward, (2009) who stated that subsidised goods and services take away businesses from the other players in the market leading to unsold stocks and lower sales volumes and therefore reduced revenue generation. The result for such businesses is lower levels of profitability which in turn negatively affects the return on investments and return on assets.

#### **4.4 Chapter Summary**

The chapter presented the findings of the study which indicate that the respondents did agree that trade policies did have an effect on organisational performance. This is demonstrated by the overall mean score of 4.36 and 4.28 for effects of trade policies and subsidies on performance respectively. The overall standard deviation was 0.23 and 0.21 respectively.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents a summary, conclusions and recommendations of the study. This study focused on the effect of trade policies on the performance of commercial state corporations in the agricultural sector in Kenya.

#### **5.2 Summary**

The findings reveal that trade liberalization policies results in the importation of cheaper goods and that the Government should protect local industries against cheap imports. Although the findings also reveal that protecting local industries from cheap imports may not necessarily increase their efficiency or competitiveness. The findings show that the importation of cheaper goods results in unfair competition with locally produced goods of similar nature, leading to reduced sales of locally produced goods and forcing local manufacturers in cutting down local production. Therefore the findings indicate that cheap unregulated imports have an adverse effect on the organization's performance. However, the importation of cheaper goods can have a positive effect on local manufacturers. The findings indicate that competition from cheaper goods makes local manufacturers more innovative. This could be attributed to fact that they use the competition to their advantage in developing scoping strategies to counter the competition of the cheaper goods.

From the findings, subsidized products have a negative effect on the organization's marketing strategies. They cause unfair competition between private businesses and subsidized government businesses. Subsidies generally lower open market prices of

products making them more affordable to the public but competing unfavourably to similar products being produced by the other players in the market, in effect crowding them out.

From the findings, subsidized products have a crowding out effect on commercial input demand and distort the inputs market. They have an effect on the organization's sales of inputs. Subsidised goods and services take away businesses from the other players in the market leading to unsold stocks and lower sales volumes and therefore reduced revenue generation. The result for such businesses is lower levels of profitability which in turn negatively affects the return on investments and return on assets.

### **5.3 Conclusion**

The relevance of trade policies cannot be over-emphasized since it constitutes the organizational climate for the activities of a company. Trade policies brings new outlook and may or may not enhance an organization's performance and competitiveness. The study examined the effect of trade policies on the performance of commercial state corporations in the agricultural sector in Kenya. From the study, we conclude that trade policies, among them subsidies, do have an effect on the performance of commercial businesses.

From the study, we conclude that subsidized products cause unfair competition between private businesses and subsidized government businesses. They have a crowding out effect on commercial input demand and distort the inputs market. They affect the sales output of an organization.

#### **5.4 Recommendations**

Trade policies results in importation of cheaper goods and protecting local industries from cheap imports does not necessarily increase their efficiency or competitiveness. Therefore, the study recommends that managers in the commercial state corporations to use the study as a basis of advocating for more autonomy in the management of the state corporations in order to achieve their mandate to be more competitive.

Subsidized products have a crowding out effect on commercial input demand. Therefore, the study recommends that the government should consider state corporations when introducing subsidized products in the market since they affect the performance of commercial state corporations in a negative way. The government should develop mechanisms to support those state corporations that are unable to effectively cope with the competition.

#### **5.5 Limitations of the study**

There were a number of limitations in the course of the study. Some respondents were not willing to fill in the questionnaires, while others did not allow for leaving the questionnaires with them and picked at a later date due to what the respondents said was their busy schedules. However; this was overcome by having a conversation with them first to explain the importance of the study to their organisations. A second limitation was the lack of literature on the topic especially as relates to state corporations and trade policies. The third limitation was that the secondary was data used as it was obtained from the sources and there was no means of verifying the validity of the data and assumptions were made that the data was accurate for the purpose of this study. Finally the findings themselves are not conclusive as focussed on only two aspects of trade policies as determined necessary for this study.

## **5.6 Suggestions for Further Research**

The study examined the effect of trade policies on the performance of commercial state corporations in the agricultural sector in Kenya. A related study also could be carried out to find out the effect of trade policies on the performance of commercial state corporations in other sectors of the economy. This study did not take into and exclude other factors, both in the internal and external environment, which would affect the performance of an organization other than trade policies.

## **5.7 Chapter Summary**

The chapter has presented a summary of the findings that reveal that importation of cheaper goods and subsidies results in unfair competition with locally manufactured goods. The study concludes that trade policies, among them subsidies, have an effect on performance of an organisation. The chapter has presented the recommendations that state corporations should be allowed to operate autonomously in order to achieve their commercial mandate. The limitations included lack of literature on the topic and that only two aspects of trade policies were considered as determined necessary for the study. Suggestions for further studies include conducting a similar study on the commercial state corporations in other sectors of the economy.



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## **APPENDICES**

### **APPENDIX 1: COMMERCIAL STATE CORPORATIONS IN THE AGRICULTURAL SECTOR**

1. Agrochemicals And Food Company
2. Kenya Meat Commission
3. Muhoroni Sugar Company
4. Nyayo Tea Development Corporation
5. South Nyanza Sugar Company
6. Chemelil Sugar Company
7. Nzoia Sugar Company
8. Simlaw Seeds Kenya
9. Kenya Animal Genetics Resource Centre
10. Kenya Seed Company
11. Kenya Veterinary Vaccine Production Institute
12. National Cereals And Produce Board

(Source: Report of the Presidential Taskforce on Parastatals Reforms, 2013)

## **APPENDIX 2: LETTER OF INTRODUCTION**

Rosemary Kweya  
P.O. Box 5110, 00506  
Nairobi

16<sup>th</sup> September 2015

Dear Sir/Madam,

### **RE: LETTER OF INTRODUCTION**

My name is Rosemary Kweya and I am currently pursuing a Master of Science degree in Marketing at the University of Nairobi. I am conducting research on “The Effects of trade policies on the performance of commercial parastatals in the Agricultural sector in Kenya”.

I am humbly requesting you take a few minutes to fill in this questionnaire. I would like to assure you that the information you give shall be used purely for academic purposes and shall remain strictly confidential.

Your contribution will be highly appreciated.

Yours faithfully

Rosemary Kweya

**RESEARCHER**

D65/65262/2013

## APPENDIX 3: QUESTIONNAIRE

### THE EFFECT OF TRADE POLICIES ON THE PERFORMANCE OF COMMERCIAL PUBLIC ENTERPRISES IN THE AGRICULTURAL SECTOR IN KENYA.

Please mark your answer with a tick (✓) as appropriate.

#### PART 1: DEMOGRAPHIC INFORMATION

1. Gender:      Male       Female

2. Your Age bracket:

upto 34 years

35 – 44 years

45 – 55 years

Over 55 years

3. How long have you served in the organization?

Less than 2 years

2 – 5 years

6 – 10 years

Above 10 years

4. What is your highest level of education?

Diploma certificate

Higher diploma

Bachelors

Masters

PhD

5. Position in the organization

- Supervisory
- Middle management
- Senior management

**PART TWO**

**SECTION A: TRADE POLICY**

This section aims at determining whether trade policy have an effect on organizational performance. Please indicate your agreement with the following statements by placing a tick mark (√) in the appropriate column using the following five-point Likert type scale shown below:

5 = strongly agree; 4 = agree; 3 = neither agree nor disagree; 2 = disagree; 1 = strongly disagree

<b>STATEMENT</b>	<b>strongly disagree</b>	<b>disagree</b>	<b>neither agree nor disagree;</b>	<b>agree</b>	<b>strongly agree</b>
Trade liberalization policies results in importation of cheaper goods					
Importation of cheaper goods compete unfairly with locally produced goods of similar nature					
Importation of cheaper goods results in cutting down of local production.					
Cheap imports results in reduced sales for local manufacturers					
Government should protect local					

industries against cheap imports.					
Protecting local industries from cheap imports does not necessarily increase their efficiency or competitiveness.					
Competition of cheaper goods makes local manufacturers more innovative.					
Cheap unregulated imports have an adverse effect on the organization's performance					
Other (specify)					

### SECTION B: SUBSIDIES

This section aims at determining whether subsidies have an effect on organizational performance. Please indicate your agreement with the following statements by placing a tick mark (✓) in the appropriate column using the following five-point Likert type scale shown below:

5 = strongly agree; 4 = agree; 3 = neither agree nor disagree; 2 = disagree; 1 = strongly disagree

STATEMENT	strongly disagree	disagree	neither agree nor disagree;	agree	strongly agree
Subsidies have a positive effect on consumers					
Subsidized inputs distort the market					
Subsidized products have a negative effect on the organization's marketing strategies					
Subsidized products have an effect on the organization's sales of similar products					



Subsidized products have an effect on the organization's performance					
Subsidized input have a crowding out effect on commercial demand					
Subsidized products cause unfair competition between private businesses and subsidized government businesses.					
Other (specify)					

**SECTION C: PERFORMANCE**

Kindly indicate the after tax profit and sales for your organization for the five (5) years as indicated in the table below;

<b>YEAR</b>	<b>AFTER TAX PROFIT (Kshs)</b>	<b>TOTAL SALES (Kshs)</b>
2014		
2013		
2012		
2011		
2010		

**THANK YOU FOR YOUR COOPERATION**