THE RELATIONSHIP BETWEEN INDUSTRY EXPERIENCE AND PROFITABILITY OF FIRMS IN THE TEXT BOOKS PUBLISHING SECTOR IN KENYA

BY:

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DECLARATION

This management project is the result of my independent study and has not been submitted for a degree in any other university

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This management report has been submitted for examination with my approval as the university supervisor

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This project is not a product of my single effort but many who have given guidance in the whole process and whose advice has made it possible.

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To my colleagues in the post graduate class for the discussions that was fruitful to the improvement of this project. All the eight key text book publishing firms in Kenya, the information you gave me on your operations was very valuable.

To my colleagues at work, and the Managing Director for allowing me to leave early for classes and I greatly appreciate your support.
DEDICATION

To my dear parents, Alfonse Kimanga and Mary Muthoki for taking me to school. My family (Wife Irene Ngina and for her encouragement and support, my children Ita Mutheu, Lillian Mutheu, Ian Muasya and Victor Muendo) friends and colleagues. Your understanding during the time of my studies made it possible to concentrate in class and pass the examinations.
ABSTRACT

The study aimed at investigating the relationship between industry experience and firm profitability in the Kenyan publishing sector hence, the researcher adopted a descriptive research design. However, since the researcher was interested in composing a time series based on historical data, historical research was also undertaken. The target population for this study therefore comprised of all Kenyan publishing firms preparing financial statements as at 31st December 2010, registered as members of the Kenya Publishers Association (KPA) and specializing in text books publishing. Primary data was collected by use of a questionnaire as it allowed for more flexible and comprehensive data. The questionnaire was distributed using a drop and pick method whereby data was collected from two key informants, that is the managing director and finance manager from each publishing firm. Secondary data was collected from the following sources: government publications, journals, industry reports, industry publications and individual firm financial statements including but not limited to, profit and loss statements and balance sheet.

Research findings indicated that the respondents considered education policy, information policy, book publishing policy, press law, communications networks, initial capital, training costs, printing costs, inflationary factors in the country, alternative sources of knowledge other than books and literacy levels as important in influencing the operations of the Kenyan text book publishing firms, while advertising costs and market base as moderately important in influencing the operations of the firms. Findings further indicated that the relationship between industry experience and profitability of the Kenyan text book publishing firms is a moderate positive relationship based on both return on assets (ROA) and return on earning (ROE).
The researcher concluded that despite the variations in the importance of policies, infrastructural development, finance, overall economic development and market developments in influencing the operations of Kenyan text book publishing firms over the thirty year period between 1981 and 2010, the overall relationship between industry experience and profitability of the firms has been a moderate positive one hence, the publishing firms have been able to maintain moderate profitability that is normal in a competitive business environment. Based on the conclusions of this study, the researcher made several recommends with regard to the relationship between industry experience and profitability of the Kenyan text book publishing firms.
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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

1.1.1 Industry experience

The Kenyan text books publishing industry experience has been described by various researchers and authors as one having undergone various growth stages since the beginning of local publishing in 1894 with numerous challenges ranging from policy, overall economic development, infrastructural development, finance and market development (Rotich, 2004; Chakava, 1997).

Although explorers, slave traders, and missionaries must have brought the book to Kenya centuries ago, local publishing began in 1894, when the Church Missionary Society issued its first book. Other missionary groups such as Evangel, Bible Society, Uzima, and the Baptists who all published mainly religious literature followed it. The first state publisher was the government Printer who was responsible from its initiation in 1899 for the printing of government notices, reports and other materials. For some reason it never ventured into main stream publishing. After World War II, precisely in 1947, the governments of East Africa set up the East African Literature Bureau (EALB) to publish primers (elementary books) and readers in response to demands from war veterans for appropriate reading materials (Rotich, 2004).
According to Rotich (2004) the centerpiece of the text book publishing industry in Kenya has always been the publication of educational books and/or textbooks. However, not all educational books qualify by definition as textbooks, for textbooks are usually the standard books in any branch of study that presents ideas and facts in a sequential manner. The industry has undergone various stages of growth since its establishment by missionaries in the 1890s. The methods that were adopted in the distribution of these books have varied from the time the industry was established.

The liberalization of the economy in Kenya since the mid-1980s has influenced the operations in the educational publishing sector as it did in other sectors of the economy. The structural adjustment programmes (fronted by the IMF/World Bank) that resulted in a reduction in government spending in the education sector had a direct impact on publishing (Rotich, 2004).

Chakava (1997) notes that publishers all over the world know that although publication is the end of the creation process, the greater challenge lies in getting the world to know about your newborn baby. Some of the methods used around the world in promoting and publicizing books include the following: advertising, entry into catalogues, book lists, and other national or international bibliographies, author visits and launch parties where applicable, mailing blurbs, brochures and posters (where applicable) to possible sales outlets, and arranging exhibitions in schools and at special functions for purposes of displaying one’s products.
Text book publishers will normally employ sales representatives to visit schools, bookshops, libraries and other possible outlets for this purpose. Others will submit their new books to newspapers and magazines for review, as well as to the electronic media. Some publishers have put their catalogues on the Internet, now popularly referred to as the ‘electronic bookstore’, for easy access by intending buyers. Needless to add, these books will contain full bibliographical information, including year of publication, ISBN and, in some cases, coding bars (Chakava, 1997).

According to Juma (2011), the publishing sector has lacked major new capital inflows from private equity and venture capitalists whose participation helps in the boosting professionalism, governance structures, and supplying critical capital for rapid growth. With more entrants into the sector, the players are also facing a future of stunted growth as they rely heavily on text book sales to primary and secondary schools as a long-running culture of functional reading denies the players entry into sales of leisure and self-help books. In Kenya, the government’s introduction of free primary education (FPE) and subsidy of secondary education has made it the single biggest buyer of text books. Annually, the State spends Sh1,056 and Sh3,600 per student in primary and secondary schools respectively for purchase of learning materials, amounting to several hundred million shillings.

Over the last one year, publishers started digitizing some of their titles as a value-add to push the sales of printed copies. The growing uptake of computers and broadband in homes, coupled with the government’s push for electronic learning in public schools, is expected to boost demand for digital and interactive learning materials. Despite the
limited market, state owned firms are ramping up their investments, almost assured of orders from the government, the biggest buyer of books (Juma, 2011).

The sector is showing signs of growth though it continues to depend heavily on government orders. Most of the private publishers outsource their printing services to outside firms, avoiding the high capital and maintenance costs of in-house printing, a strategy that also helps them control printing volumes to meet market needs (Juma, 2011).

1.1.2 Profitability of the firm

Porter (1979) views the profitability of an industry (as indicated by its rate of return on capital relative to its cost of capital) as determined by five sources of competitive pressure. These five forces of competition include three sources of “horizontal” competition: competition from substitutes, competition from entrants, and competition from established rivals; and two sources of “vertical” competition: the bargaining power of suppliers and buyers.

According to Herrmann (2008) firm profitability can be measured in various accounting ratios but, among the most important indicators used by analysts to evaluate the financial conditions of a firm, over the a given period of time include: return on shareholders’ funds, as a measure of corporate profitability indicating how much profit a firm has generated with the money that shareholders have invested; and, profit margin, a ratio of profitability that indicates how much out of every dollar of sales a firm obtains in earnings. According to Herrmann (2008) when analyzing a firm’s profitability, we are concerned with evaluating a firm’s earnings with respect to a given level of sales / assets / owners’ investment or share value. In doing so, the common profitability measures
include: Common-size income statements; Return on total assets (ROA); Return on equity (ROE); Earnings per share (EPS); Price/Earning (P/E) ratio. Under the common-size income statement, we express every item on the income statement as a % of sales, which is gross margin; operating margin; and profit margin, whereby: Gross margin - % of each sales dollar remaining after the firm has paid the direct cost of goods sold (COGS); Operating margin - % of each sales dollar remaining after the firm has paid all expenses (excluding financing expenses and taxes); Profit margin - % of each sales dollar remaining after the firm has paid all expenses (including interest and taxes). Return of total assets (ROA) takes into consideration the return on investment (ROI) and indicates the effectiveness in generating profits with its available assets, thus the higher the better. Return on equity (ROE) indicates the return on owners' equity, hence the higher the better. Earnings per share (EPS) indicate the dollar amount earned on behalf of each common share, thus the higher the better. Price/earnings (P/E) ratio is the amount investors are willing to pay for each dollar of earnings, that is indicates investors' confidence (Herrmann, 2008). For the purpose of this study two accounting ratios were calculated that is, return of total assets (ROA) and return on equity (ROE).

1.1.3 Industry experience and profitability

According to William (2006) a relationship refers to the correspondence between two variables. Therefore, in order to describe the relationship between industry experience and profitability one must objectively determine which of the two variables (industry experience and profitability), is dependent on the other. It is evident that profitability is dependent on various industry factors from both the external and internal business
environments including political, economic, social, technological, ecological and legal factors as well as competition (Narayanan and Fahey, 2001; Porter 1979).

William (2006) points out that the type of relationship between two variables can be mathematically illustrated as either being positive (direct) or negative (inverse). A positive or direct relationship is a relationship between two variables in which change in one variable is associated with a change in the other variable in the same direction. An inverse or negative relationship is a relationship in which one variable decreases as another increase. Consequently, the industry factors were used to describe industry experience over a given period of time. Statistically speaking, it would was then possible to describe the relationship between industry experience and profitability over a given period of time by considering profitability as the dependent variable and the industry factors as independent variables.

For instance, Muhammad and Dr. M. Sarwar Rana (2010) in a study of the factors affecting Pakistan spinning industry revealed various factors that had a substantial relationship with the performance of the spinning mills and the conclusion avers that net equity, non-current liabilities and sale volume have a positive connection with the net profit of the mills. The study also found a logical connectivity between net profit (Earning Performance Share) and other factors like, cost of raw material, electricity cost, wages and salaries.
Tae-Woo and Choi (2010) also undertook a study of the factors which influence franchisor profit structure with running royalty policy for its sustainable growth: Focus on the food industry in Korea. The research found out that although the franchise industry was growing in Korea, the stability of business is still in doubt because the business cycle of the franchisor is shortened. The study also found out the reasons why franchisors have unstable status in Korea, the main reason being the instability of profit structures for franchisors which are a burden to the franchisees which then worsen the franchisors’ financial status. Consequently, the relationship between industry factors and profitability can either be positive, negative or no relationship at all.

1.2 Statement of the problem

According to Claypool (2011), since the early 1980s, a number of internal and external forces relating to costs, pricing, discounts, sales channels and sales volume have led to the erosion of a profitable business model. There has never before been a more challenging environment for publishers in which to make a profit. The publishing of new and original content requires cash up-front for staffing, production and manufacturing, with sales revenues lagging behind initial investments by several years. Profits are constrained by supplier discounts and overheads.

Books are generally sold by publishers to suppliers at an average discount, which now approaches 40% – a huge increase from the 20% levels of the 1990s. Also, the allocation for overheads (premises, equipment and staffing) has in some cases climbed above 30% of the list price. With discounts to suppliers and overheads taking up 70% of the revenue
from the book, a thin margin of 30% remains to cover the production costs, royalties and profits. Hence, no matter what the price, numbers of books sold or net revenue, the margins of profitability are very slim (Claypool, 2011).

In Kenya, text book publishers say net profit margins in the sector oscillate between seven per cent (7%) and fifteen per cent (15%). Increased competition in the market, coupled with the change of national curriculum is the twin primary factors forcing out foreign publishing interests. From less than six publishers in the early years after independence, there are now about 100 registered publishers, though the market is dominated by about 15 publishers, including State owned The Jomo Kenyatta Foundation (JKF) and Kenya Literature Bureau (KLB). The industry sells books worth over Sh3 billion per year, mainly text books. Players add that with the fragmentation of the already small market, foreign firms are choosing to move to larger emerging markets (Juma, 2011).

Several studies have been undertaken in the Kenyan publishing sector. For instance, Rotich (2004) undertook a study titled, “The affordability of school textbooks in Kenya: consumer experiences in the transformation to a liberalizing economy.” According to the study, the educational publishing industry in Kenya has faced numerous problems that have affected its growth. The problems stem from government policies and of late the globalization of the economy through the introduction of wider market liberalization, structural adjustment programmes (SAPs) from the World Bank and the requirements of the International Monetary Fund (IMF).
Oriwo (2004) undertook a survey of the extent to which advertising by textbook publishing firms influence customer preference of textbooks: The case of public primary school teachers in Nairobi. The study reported that advertising was indeed effective in influencing customer preferences with highly advertised book titles being preferred by public primary school teachers.

Iko (2006) undertook a survey of strategic choices made by publishing firms in Kenya, and reported on various strategies adopted by publishing firms in Kenya including but not limited to cost leadership, mergers and acquisitions, focus and outsourcing.

However, none of these studies has clearly looked into the relationship between industry experience and firm profitability, yet the long-term success of the Kenyan publishing sector heavily relies on the going concern of individual firms which is in turn determined by long-term firm profitability. This underpins the importance of undertaking this study which aimed at answering the following research question, “What is the relationship between industry experience and firm profitability in the Kenyan text book publishing sector?”

**1.3 Research Objective**

The study’s objective was to determine the relationship between industry experience and firm profitability in the Kenyan text book publishing sector.
1.4 Importance of the study

The study was of importance to the following stakeholders:

1. The government in gathering data/information relating to industry experience and its relationship with firm profitability in the Kenyan textbook publishing sector. This will assist the government in policy formulation and regulation of the sector, particularly regarding free primary and secondary education.

2. Publishing firms by providing industry based data/information that will assist management in understanding how industry experience relates to firm profitability, which is useful in developing and implementing financial strategies that foster the firms going concern.

3. Research and academic institutions by providing information and a benchmark for further research on industry experience and its relationship on firm profitability in the Kenyan textbook publishing sector.

4. Assist the Kenyan government in developing appropriate patent and copyright law.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on industry and profitability, provides empirical review on industry experience and firm profitability of the text book publishing sector and develops a conceptual framework on the relationship between industry experience and firm profitability in Kenya.

2.2 Theoretical literature

The growth of firms has been studied from many different approaches and streams of research (O’Farrell and Hitchens, 1988). This is one of the main topics in the strategic management field since the origin of the area (Andrews, 1949; Ansoff, 1957; Penrose, 1959). Andrews (1949) argues that companies grow due to their aim of diminishing unitary costs. On the other hand, Ansoff (1957) proposes a model based on the concept of product-market position. This model has been combined with the ideas of resources-based perspectives in a recent work of Pettus (2001). Finally, Penrose (1959) suggests that the causes of the growth are internal; firms grow in order to use some inactive resources and capabilities. Penrose’s proposal has been developed in the last decade through resources-based theorist.
According to Penrose (1959), the growth of enterprises can be explained by the managers' intention of finding applications for different inactive resources and capabilities. These resources can arise from their indivisibility and their specificity. When resources cannot be divided, the company has to acquire unnecessary quantities of it, if it wants to assure the right use of other different resources. The resources specificity impels the company to maintain these unexploited resources in the company instead of selling or externalizing them in the market (Barney, 1991). Penrose (1959) places the attention on the managerial resources because they are characterized by the properties mentioned. However, and for the same reasons, the main constraints on growth are managerial resources (known as the "Penrose effect"), because there is scarcity of managers with the capabilities needed for a specific business.

As the environment changes, and learning takes place, organizations refine and adapt their strategies. In this sense, the company growth is considered to be a history-dependent process (Barney and Zajac, 1994). This consideration (path-dependence hypothesis), is the basis of the establishment of a logic sequence in the growth process (Pettus, 2001). This approach assumes that growth implies a gradual accumulation of new resources and capabilities for a long time (Hall, 1993). This sequential focus of growth has also been considered in other works although without making any reference to the resources-based perspectives. There is a stream of research that suggests a stage-model of growth, designed in most cases to understand the evolution of the newly created small companies. The evolution leads the organization to a new strategy, which will be tested in real time. The organization may learn that the new strategy is not working, because the senior
managers only ask their people to aim at better results or customer satisfaction (Churchill and Lewis, 1983).

According to Coase (1937) people begin to organize their production in firms when the transaction cost of coordinating production through the market exchange, given imperfect information, is greater than within the firm. Putterman (1996) asserts that most economists accept distinction between intra-firm and inter-firm transaction but also that the two shade into each other; the extent of a firm is not simply defined by its capital stock. Richardson (1972) for example, notes that a rigid distinction fails because of the existence of intermediate forms between firm and market such as inter-firm co-operation.

Baumol (1972) suggests that managers would seek to maximize their own utility and consider the implications of this for firm behavior in contrast to the profit-maximizing case. Hence, managers' interests are best served by maximizing sales after achieving a minimum level of profit which satisfies shareholders.

Cravens (2000) indicates that firms can be profitable by offering their customers economic benefits beyond the functionality of their traditional products, companies have connected their products to bigger issues and bigger opportunities and used demand innovation to uncover three sources of new growth: (1) New, more powerful opportunities to grow core product sales by reinforcing and expanding customer relationships and shifting the basis of competition from product price and performance to new, more differentiated and valuable dimensions. (2) By focusing on broader customer
needs, to combine multiple products and services into more valuable integrated offers. This allows them to capture new sales from adjacent markets and create a more lucrative balance between product and service sales. (3) Turning the improvements in the customer’s value chain into new revenue streams from outsourcing fees, tolling charges, output guarantees, subscription fees, and the like. The best growth practitioners create growth along all three dimensions simultaneously. As a result, they create high-intensity profit growth in otherwise low-margin industries, enhance earnings stability, and forge tighter bonds with their customers.

According to Herrmann (2008) if the purpose of strategy is to help a company to survive and make money, the starting point for industry analysis is a simple question: What determines the level of profit in an industry? As already noted, business is about the creation of value for the customer either by production (transforming inputs into outputs) or commerce (arbitrage). Value is created when the price the customer is willing to pay for a product exceeds the costs incurred by the firm. But value creation does not translate directly into profit. The surplus of value over cost is distributed between customers and producers by the forces of competition. The stronger competition is among producers, the more of the surplus is received by customers in consumer surplus (the difference between the price they actually pay and the maximum price they would have been willing to pay) and the less is the surplus received by producers (as producer surplus or economic rent).

The surplus earned by producers over and above the minimum costs of production is not entirely captured in profits. Where an industry has powerful suppliers — monopolistic
suppliers of components or employees united by a strong labor union – a substantial part of the surplus may be appropriated by these suppliers (the profits of suppliers or premium wages of union members). The profits earned by the firms in an industry are thus determined by three factors: the value of the product to customers; the intensity of competition; and, the bargaining power of the producers relative to their suppliers. Industry analysis brings all three factors into a single analytic framework (Herrmann, 2008).

Parast and Fini (2010) indicate that in the pursuit of better operational performance and profitability, organizations are looking for strategies to improve their operational performance and boost their profitability. As competition intensifies due to changes in the industry structure and the emergence of new technologies, organizations are determined to reduce their operational costs while enhance their profitability.

Porter (1980) developed the five forces as a framework for industry analysis and business strategy development. It draws upon Industrial Organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market. Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability. A very unattractive industry would be one approaching "pure competition", in which available profits for all firms are driven down to zero. Porter's five forces include three forces from "horizontal" competition: threat of substitute products, the threat of established rivals, and the threat of new entrants; and two forces from
"vertical" competition: the bargaining power of suppliers and the bargaining power of customers.

According to Herrmann (2008) when analyzing a firm’s profitability, we are concerned with evaluating a firm’s earnings with respect to a given level of sales / assets / owners’ investment or share value. In doing so, the common profitability measures include: Common-size income statements; Return on total assets (ROA); Return on equity (ROE); Earnings per share (EPS); Price/Earning (P/E) ratio. Under the common-size income statement, we express every item on the income statement as a % of sales, which is gross margin; operating margin; and profit margin, whereby: Gross margin - % of each sales dollar remaining after the firm has paid the direct cost of goods sold (COGS); Operating margin - % of each sales dollar remaining after the firm has paid all expenses (excluding financing expenses and taxes); Profit margin - % of each sales dollar remaining after the firm has paid all expenses (including interest and taxes).

Return of total assets (ROA) takes into consideration the return on investment (ROI) and indicates the effectiveness in generating profits with its available assets, thus the higher the better. Return on equity (ROE) indicates the return on owners’ equity, hence the higher the better. Earnings per share (EPS) indicate the dollar amount earned on behalf of each common share, thus the higher the better. Price/earnings (P/E) ratio is the amount investors are willing to pay for each dollar of earnings, that is indicates investors’ confidence (Herrmann, 2008).
Saari (2006) indicates that profitability, income distribution process and production process can be illustrated by means of time series. The principle of a time series is to describe, for example, the profitability of production annually by means of a relative surplus value and also to explain how profitability was produced as a consequence of productivity development and income distribution. A time series can be composed using the chain indexes. With the time series it is possible to prove that industry factors affect the distributable result of production, and profitability is the share remaining in the company after income distribution between the company and interested parties participating in the exchange.

2.3 Empirical literature

According to Cravens et al. (2000) with the growing competition in the domestic and international markets, more demanding and assertive customers, rapid advancement in technology, and changing government policies and laws, the marketing environment has changed dramatically in the last decade and is becoming more turbulent. Therefore, marketing is a major stakeholder in new product development, customer management, and value/supply-chain management, and marketing strategy provides concepts and processes for gaining a competitive advantage by delivering superior value to the business's customers.

To deal with the current industry experiences and challenges, the businesses must have more distinctive and purposeful marketing strategies and they should be effectively implemented (Cravens et al., 2000). E-commerce at present has become a popular
marketing strategy and it has eliminated some of the activities in the value chain and helped improve business performance (Cotter, 2002). For example, Dell Computer used a business model of selling directly which eliminated a step in the value chain and other PC makers also were then forced to revamp their value chain approach (Crosby and Johnson, 2002; Thompson and Strickland, 2001).

In order to understand the viability of publishing, it is important to have a basic understanding of the basic tasks involved in creating publications. Primarily these include the acquisition, financing, production, marketing, sales and delivery of publications. Although the ways that these tasks and responsibilities are carried out have undergone quite radical change owing to technological, social and economic forces, the basic underlying functions of publishing remain the same: to facilitate the creation of content by an author, and then deliver that content to the interested reader (Claypool, 2011).

Claypool (2011) however, notes that there has never before been a more challenging environment for publishers in which to make profit mainly due to the following: Cash flow and profitability - The publishing of new and original content requires cash up-front for staffing, production and manufacturing, with sales revenues lagging behind initial investments by several years; Content acquisition and editorial costs - No publishing operation, whether print or electronic, can exist without content. Therefore the first step in any publishing plan is to determine the costs of acquiring that content; Pre-press costs - Pre-press costs for composition, copy-editing and formatting have reached their lowest point ever in real dollar terms; Manufacturing costs - Perhaps the biggest
misunderstanding from those outside the book publishing business concerns the relationship between the retail price of a book and the cost to the publisher of manufacturing a bound copy; Shipping and handling - In recent years, large online retailers such as Amazon have begun to offer free shipping and handling for consumers on what appear to be already discounted books. Unfortunately, this has resulted in even greater pressure on publishers from retailers and wholesalers to absorb their shipping and handling costs through the provision of even greater discounts; Royalties to authors and editors - In publishing, royalties paid to the authors or editors of monographs have traditionally ranged from 10% to 15% of net revenues from sales. In addition, the editors of series and advisory editors have received an average of 2%, and occasionally up to 5%, of sales income; Sales and marketing - A publishing plan would not be complete without a sales and marketing strategy. Publishers generally hope to sell collections of content to libraries, particularly in the education, health and business sectors; Retail pricing and discounts - The biggest potential challenge for publishers is the fact that the retail price for books and information may substantially decline under pressure from consumers.

According to Chakava (1997) publishers face numerous challenges. For instance, publishers lack strategic and planned promotional campaigns; publishers have little money and operate on shoe-string budgets; the number of bookshops, libraries and other institutions where they may sell their books are few indeed, and do not have any meaningful book budgets; transportation is expensive, yet slow, tedious and inefficient;
and sales promotion personnel, as in all the other sectors of the industry, are untrained and inadequately equipped for their job.

The problems of book marketing and distribution are part and parcel of the problems of publishing itself. Some of these result from underdevelopment and are not within the publishers' ability to solve. Any approach to solving these problems must be holistic because the publishing chain fails when any of its components fail. In this conclusion, an attempt is made to put forward proposals which, if put in place, would not only successfully tackle the problems of marketing and distribution, but would also strengthen the publishing chain itself. In order to overcome these challenges, the following five issues need to be addressed: policies, infrastructural development, finance, overall economic development, and market development (Chakava, 1997).

According to Chakava (1997) the Kenyan publishing industry is struggling to succeed in spite of the many hurdles being placed in its way by the Kenyan government, and the government's failure to fully cooperate with the other countries in the region in the establishment of a common East African market. In the new spirit of commercialization, liberalization and privatization, Kenya needs less government, but more enlightened information and better publishing and book policies if it is to regain its position as a leading publishing and knowledge centre in Africa, which it enjoyed in the late 1960s and early 1970s.
Rotich (2004) indicates that Kenya has the largest and most active book industry in East and Central Africa with only a third of the ninety plus registered publishers being active.

There are however, outstanding issues on policy that need government attention and action. Prominent among these are: book policy framework, taxation, language, state publishing monopolies, and funding. Kenyan publishers prefer publishing textbooks because they know the consumers and how to reach them. Promoting non-textbook materials is known to be more difficult with some exceptions mostly in Nairobi, which is relatively better in terms of the number of booksellers and concentration of academic authors and buyers. Bookshops, which might have offered a natural outlet, are unwilling to stock a book unless they have received an order for it. Libraries are very few and their budgets extremely small. In short, the country does not have an adequate infrastructure for the distribution of non-textbook materials. Demand for Kenyan books in neighboring Eastern and Central African countries, as well as in Western and Southern Africa, has been established but this has not been exploited to the full. With over 20011 bookshops, Kenya is relatively better by African standards in terms of distribution outlets.

The role of libraries as buyers of books and as channels for reading promotion has not been actively promoted in most African countries, including Kenya, and often book provision has been entirely left in the hands of funding agencies. Most libraries are underfunded, lack stocks, while their personnel are untrained. For example, Kenya with its large literate population of over fifteen million has only eighteen public libraries. Certainly one cannot rule out economic considerations as contributing to, for example, the low reading levels. Many people, in both rural and urban areas are struggling to meet
the bare necessities of life—food, shelter, and clothing. Book-buying and reading are very secondary to them. Compared with international standards, literacy levels are low in all African countries; nowhere do they exceed seventy percent (Rotich, 2004).

2.4 Relationship between industry experience and firm profitability

Shields and Tajalli (2006) have identified several types of conceptual frameworks (working hypotheses, descriptive categories, practical ideal type, models of operations research and formal hypotheses). The frameworks are linked to particular research purposes (exploration, description, gauging, decision making and explanation/prediction). In order to illustrate the relationship between industry experience and firm profitability, the researcher will develop a conceptual framework that considers industry experiences as comprising the shift of industry factors over a given period of time as the independent variables. The dependent variable will be firm profitability which will be measured using specific profitability ratios over a thirty year period, that is, 1981 to 2010. The period will be broken down into five 5-year periods and a time series composed using the profitability ratios.

According to Chakava (1997) the African publisher is to be empowered and enabled to deliver, the following five issues need to be addressed: policies, infrastructural development, finance, overall economic development, and market development. The researcher considers these five areas as vital in conceptualizing the industry experience of
the Kenyan text book publishing sector. Consequently, the five areas are expounded with regard to industry experience:

**Policies** – Most African countries (Kenya not being an exception) continue to function without any policies whatsoever in this vital and fast-growing area of communication. A few may have an education policy, information policy, book or publishing policy, press law, or a book council. Industry experience shows that government policy has occasionally created unnecessary structures, some of which have conflict with, duplicate or even contradict stated objectives. Experience indicates that publishing thrives better in the private sector due to its very personalized yet professional style, and the complications of administering a small but complex organization impinging on many others and involving many ‘product lines’, in this case each book constituting a product line on its own. It would be impossible for such an industry to be controlled centrally (Chakava, 1997).

**Infrastructural development** – Industry experience has it that services such as communication networks — roads, railways, sea routes and airlines — housing, rural electrification, schools and library development, and the establishment of tertiary and higher institutions of learning are all necessary, if a publisher’s work is to be made easy and if he is to get his books to all parts of the country, especially the rural areas. This infrastructure is lacking or inadequate in most of Africa (including Kenya) (Chakava, 1997).
Finance – Past experience indicates that indigenous African publishers (including Kenya) are undercapitalized. They get no assistance no bank in Africa that we are aware of that will accept publishers’ stocks as collateral at full value. International aid and development agencies are now only beginning to take an interest in African publishing and the World Bank and Overseas Development Administration only gradually beginning to accept that African publishers have sufficient capacity to bid for and win orders, and supply publications. Lack of money is still the African publisher’s greatest problem. Publishers cannot afford to hire and train and retain high calibre-staff. There are insufficient funds for pre-publication research, advance publicity material, post-publication activities such as advertising, launch parties, posters and other publicity gimmicks. The quality of the books is inferior as there is no alternative but to go for cheap production. Most of the books will be in soft-back with a simple black and white cover, and where the publisher affords full color on the cover, it will not be the full complement of lamination or spirit vanishing. Due to cash-flow problems, the publisher engages in short-term projects which can bring in immediate gains but which are not sustainable (Chakava, 1997).

Economic development – Experience has it that although books are everywhere in Africa (including Kenya) regarded as essential commodities, preference is given to other day-to-day living needs such as food, health, housing, clothing and school fees. The reason for this is visible and immediate; the damage caused by lack of knowledge and information is not visible and its effects are not immediate. There are many people living their lives today without reading the daily newspaper, let alone a book. And while people
in the industrialized world are communicating through all sorts of super information highways—Internet, e-mail, fax, and other highly developed telephonic channels—some communities in Africa are still basically oral (Chakava, 1997).

**Market development** – Industry experience indicates that African publishing (including Kenya) has had a very narrow market base. Most African books are published in foreign languages such as English and French which, in most cases, are spoken by minority groups. Africa has over 1,000 languages, and a majority of them do not yet have transcribed orthographies. Thirdly, more than 50 per cent of African people are illiterate and therefore have no need for books. The problem of the lack of book-reading and book-buying habits in Africa has been widely publicized and is referred to earlier in this article. Most of the books on sale in African bookshops are imported from Britain and France and do not deal with the issues that interest African readers. Many people find them fickle and irrelevant and an affront to their own culture. Finally, it can only be reiterated that for a sustainable book market to emerge in Africa, publishers should not only address the questions raised above but should work hand in hand with our governments in order to bring about economic development (Chakava, 1997).
2.5 Chapter summary

From the literature reviewed it is evident that profitability is a function of several industry factors from both the external and internal business environments including political, economic, social, technological, ecological and legal factors as well as competition. Consequently, by the use of Spearman's rank correlation coefficient shows the relationship between industry experience and firm profitability in the Kenyan text books publishing sector.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes the research methodology used by indicating the research design, target population, data collection method/techniques and data analysis that were utilized in illustrating the relationship between industry experience and firm profitability in the Kenyan text books publishing sector.

3.2 Research design
In order to illustrate the relationship between industry experience and firm profitability in the Kenyan publishing sector, the researcher adopted a descriptive research design. Descriptive design is appropriate to describe and portray characteristics of an event, situation, and a group of people, community or a population (Chandran, 2004). In this case, industry experiences in the following areas: polices; infrastructural development; finance; overall economic development; and market development were considered. However, since the researcher was interested in composing a time series based on historical data, historical research was also undertaken. According to Cohen and Manion (1928) historical research involves collecting information from the past, studying and analyzing the data. They add that data may be from primary sources or secondary sources.
3.3 Target population

Mugenda and Mugenda (2003) define population as an entire group of individuals, events or objects having a common observable characteristic. The target population for this study therefore comprised of all Kenyan publishing firms preparing financial statements as at 31st December 2010, registered as members of the Kenya Publishers Association (KPA) and specializing in text books publishing. According to Kenya Publishers Association the entire text books publishing subsector was controlled by eight (8) firms as per the attached Appendix I.

3.4 Data collection

Primary data was collected by use of a questionnaire as it allowed for more flexible and comprehensive data. A questionnaire is a measurement tool which translates research objectives into precise field questions following a logical sequence of the research objectives. The questionnaire becomes the means of obtaining evidence related to the research questions or hypotheses. The questionnaire was divided into two sections, A and B containing both open ended and closed questions. Section A focused on the profile of the responding publishing firm while section B contained questions on the research objectives. The questionnaire was distributed using a drop and pick method whereby data was collected from two key informants, that is the managing director and finance manager from each publishing firm.

Secondary data was collected from the following sources: government publications, journals, industry reports, industry publications and individual firm financial statements including but not limited to, profit and loss statements and balance sheet. The researcher
utilized secondary data to compute the following: return on shareholders’ funds (ROE) as a measure of corporate profitability indicating how much profit a firm has generated with the money that shareholders have invested; and return on asset ratio (ROA) which measures the overall profitability of assets. In other words, it identifies how much of earned income is produced for each shilling asset. It was calculated by dividing net income by average total assets. Conversely, the asset turnover ratio was determined by dividing net sales by average total assets. The ratio measures how efficiently a company uses its assets to generate sales. These ratios may vary considerably among industries. The researcher collected information relating to all the variables in the above ratios from the published financial statements of the firms since 31st December 1981. As a rule of thumb, one can say that firms perform better, the higher they score on each of these indices.

3.5 Data analysis

Primary data was analyzed by computing the weighted industry average for the independent variables in the study that is policies, finance, market development, infrastructural development and overall economic development. The researcher computed the mean scores for each variable and ranked them depending on how close or far the variable score was to industry weighted average. Those with higher than the industry average denoted high, were deemed to have had high or favorable industry experience, those close to the average had moderate or average experience while those with lower had bad industry experience.
Since the study aimed at showing the relationship between the industry experience and profitability in the textbook publishing sector in Kenya further analysis were done by the use of Spearman's rank correlation coefficient or Spearman's rho, named after Charles Spearman and often denoted by the Greek letter $\rho$ (rho) or as $r_s$, is a non-parametric measure of statistical dependence between two variables. This assesses how well the relationship between two variables can be described using a monotonic function. If there are no repeated data values, a perfect Spearman correlation of +1 or -1 occurs when each of the variables is a perfect monotone function of the other. The Spearman correlation coefficient is defined as the Pearson correlation coefficient between the ranked variables.

The $n$ raw scores $X_i, Y_i$ are converted to ranks $x_i, y_i$, and $\rho$ is computed from these:

$$\rho = \frac{\sum_i(x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_i(x_i - \bar{x})^2 \sum_i(y_i - \bar{y})^2}}$$

Tied values are assigned a rank equal to the average of their positions in the ascending order of the values. In applications where ties are known to be absent, a simpler procedure can be used to calculate $\rho$. Differences $d_i = x_i - y_i$ between the ranks of each observation on the two variables are calculated, and $\rho$ is given by:

$$\rho = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)}$$

The researcher then presented the results in form of graphs showing pictorial presentations of the relationship between industry experience and firm profitability.
CHAPTER FOUR
DATA ANALYSIS AND FINDINGS

4.1 Response rate

Response rate refers to the percentage of subjects who respond to questionnaires. According to Mugenda and Mugenda (2003) a response rate of 50% is adequate for analysis and reporting, whereas a rate of 60% is good while a rate of 70% and over is very good for analysis and reporting. The study’s response rate was at 100% (computed by response/population) which is very good for analysis and reporting.

4.2 Kenyan text book publishing firm demographics

This section highlights findings on the demographics of the responding Kenyan text book publishing firms. The researcher was interested in establishing the nature of ownership of the text book publishing firm and whether the privately owned firms were publishing their financial reports. Figure 4.1 illustrates the nature of ownership of the text book publishing firms. According to the figure 50% of the Kenyan text book publishing firms were private domestically owned, 25% were private foreign owned while the remaining 25% were public owned.

Findings also indicated that 100% of the privately owned firms were preparing financial statements. This indicates that the Kenyan text books publishing sector is majorly influenced by local shareholders making it an important contributor to the country’s overall economic development.
The table below shows that 50% of firms under research are local and privately owned while public firms and those foreign owned take an equal share of 25% each.

### 4.3 Industry factors affecting the Kenyan text book publishing firms

The study aimed at investigating the industry factors that were influencing the operations of Kenyan text book publishing firms over a thirty year period between 1981 and 2010. Table 4.2 illustrates the importance of the factors influencing operations of the Kenyan text book publishing firms. To measure the importance of the factors, the researcher
coded the respondents considerations where "Very important" was given the value five (5.0), "Important" was given the value four (4.0), "Moderately important" was given the value three (3.0), "Less important" was given the value two (2.0) and "Least important" was given the value one (1.0).

According to the table, the respondents considered education policy, information policy, book publishing policy, press law, communications networks, initial capital, training costs, printing costs, inflationary factors in the country, alternative sources of knowledge other than books and literacy levels as important in influencing the operations of the Kenyan text book publishing firms as their means drew closer to four (4.0). The respondents considered institutions, advertising costs and market base as moderately important in influencing the operations of the firms their means drew closer to three (3.0). This indicates that most of the factors under consideration were influencing the firms operations hence contributing significantly to the industry experience.

Table 4.2: Industry factors influencing operations of the firms

<table>
<thead>
<tr>
<th>Industry factors influencing the operations of the firm</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education policy</td>
<td>4.13</td>
</tr>
<tr>
<td>Information policy</td>
<td>4.00</td>
</tr>
<tr>
<td>Book Publishing policy</td>
<td>3.88</td>
</tr>
<tr>
<td>Press law</td>
<td>3.75</td>
</tr>
<tr>
<td>Communications Networks roads, railways)</td>
<td>4.13</td>
</tr>
<tr>
<td>Institutions ( schools, library development)</td>
<td>3.38</td>
</tr>
<tr>
<td>Initial capital</td>
<td>4.13</td>
</tr>
<tr>
<td>Training costs</td>
<td>3.75</td>
</tr>
<tr>
<td>Advertising costs</td>
<td>3.38</td>
</tr>
<tr>
<td>Printing costs</td>
<td>4.25</td>
</tr>
<tr>
<td>Inflationary factors in the country</td>
<td>3.88</td>
</tr>
<tr>
<td>Alternative sources of knowledge other than books</td>
<td>4.25</td>
</tr>
<tr>
<td>Market base</td>
<td>3.50</td>
</tr>
<tr>
<td>Literacy levels</td>
<td>4.25</td>
</tr>
</tbody>
</table>

Source: Research data
From the information above, the following factors were ranked highly in how they influence the firms operations, Education policy, Literacy levels, Alternative sources of knowledge other than books, Printing costs, Initial capita, and Information policy.

Due to the significance of the said factors in illustrating the industry experience of the Kenyan text book publishing sub-sector, the study also investigated the extent to which the industry factors influenced the operations of the text book publishing firms over a thirty year period between 1981 and 2010. Figure 4.3 illustrates the trend in percentages of the industry factors based on their influence on the operations of the firms.

**Figure 4.3: Influence of industry factors on the operations of the firms over time**

![Chart showing the influence of industry factors on the operations of the firms over time](chart.png)

Source: *Research data*
According to the figure, finance was the most influential industry factor with an influence of between 96% and 88%, policies was the second most influential industry factor with an influence of between 87% and 77%, infrastructural development followed with an influence of between 86% and 83%, market development had an influence of between 83% and 78%, while overall economic development had an influence of between 86% and 65% on the operations of Kenyan text book publishing firms over the thirty year period of time between 1981 and 2010. The figure also illustrates that the influence of finance declined over the period of time.

This could be as a result of increased access to sources of finance at reasonable costs over the same period of time. The influence of infrastructural development also steadily decreased over time indicating that the industry experienced improved infrastructure over the same period. Market development and policies experienced several increments and declines interchangeably over specific periods indicating that the two variables were negatively correlated in their influence on the firms operations over the same period. Overall economic development increasingly influenced the operations of the firms over the same period indicating that the firms were finding it more challenging to remain profitable as the economy grew which could be as a result of the following: increased competition, deregulation, liberalization, globalization, increased cost of doing business among others.

4.4 Relationship between industry experience and profitability

This section highlights the findings on the relationship between industry experience and profitability of the Kenyan text book publishing firms over the thirty year period between 1981 and 2010. Table 4.3 illustrates the mean of the factors influencing operations of the
Kenyan text book firms between 1981 and 2010 based on the study’s conceptual framework (in Chapter Two). To measure the importance of the factors over the said period, the researcher coded the respondents considerations where “Very important” was given the value five (5.0), “Important” was given the value four (4.0), “Moderately important” was given the value three (3.0), “Less important” was given the value two (2.0) and “Least important” was given the value one (1.0).

According to the table finance was the most important industry factor influencing the operations of the firms between 1981 and 2010 with a mean of 4.81, 4.72, 4.59, 4.50, 4.47 and 4.41 between the periods 1981 to 1985, 1986 to 1990, 1991 to 1995, 1996 to 2000, 2001 to 2005 and 2006 to 2010 respectively. This finding can be interpreted to indicate that access to and cost of finance in Kenya has continuously been influencing text book publishing firms which require substantial financial initial capital as well as adequate cashflow to cater for staff training costs, advertising funds and printing costs.

Table 4.3: Industry factors influencing operations between 1981 and 2010

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies</td>
<td>4.34</td>
<td>4.00</td>
<td>4.25</td>
<td>3.84</td>
<td>4.38</td>
<td>4.13</td>
</tr>
<tr>
<td>Finance</td>
<td>4.81</td>
<td>4.72</td>
<td>4.59</td>
<td>4.50</td>
<td>4.47</td>
<td>4.41</td>
</tr>
<tr>
<td>Overall economic development</td>
<td>3.25</td>
<td>3.31</td>
<td>3.38</td>
<td>3.94</td>
<td>3.88</td>
<td>4.31</td>
</tr>
<tr>
<td>Market development</td>
<td>3.88</td>
<td>4.06</td>
<td>3.94</td>
<td>4.13</td>
<td>3.88</td>
<td>3.94</td>
</tr>
<tr>
<td>Total weights for the periods</td>
<td>20.59</td>
<td>20.34</td>
<td>20.41</td>
<td>20.53</td>
<td>20.53</td>
<td>20.91</td>
</tr>
</tbody>
</table>

Source: Research data

In order to describe the nature of the relationship between these industry factors and profitability of the Kenyan text book publishing firms, the researcher utilized the The Spearman correlation coefficient based on the means of the variables (as illustrated in
Table 4.3) where; the \( n \) raw scores \( X_i, Y_i \) are converted to ranks \( x_i, y_i \), and \( p \) is computed from these:

\[
\rho = \frac{\sum_i (x_i - \overline{x})(y_i - \overline{y})}{\sqrt{\sum_i (x_i - \overline{x})^2 \sum_i (y_i - \overline{y})^2}}.
\]

Table 4.4 illustrates the correlation of the industry factors and profitability of the firm measured by return on assets (ROA). According to the table output, Spearman correlation equalled to 61\%. Based on the percentage ranking of the formulas output, where 0\% to +40\% is deemed to be no (minimum positive) correlation, +40\% to +60\% is low positive correlation, +60\% to +80\% is moderate positive correlation and +80\% to +100\% is perfect positive correlation, while 0\% to -40\% is deemed to be no (minimum negative) correlation, -40\% to -60\% is low negative correlation, -60\% to -80\% is moderate negative correlation and -80\% to -100\% is perfect negative correlation. This finding can therefore be interpreted to indicate that the relationship between industry experience and the profitability of Kenyan text book publishing firms is a moderate positive relationship.

Table 4.4: Correlation between industry factors and profitability (ROA)

<table>
<thead>
<tr>
<th>x1</th>
<th>x2</th>
<th>rank 1</th>
<th>rank 2</th>
<th>di (rank 1-rank 2)</th>
<th>di(rank 1-rank 2)^2</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.75</td>
<td>20.59</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>10.78</td>
<td>20.34</td>
<td>5</td>
<td>6</td>
<td>-1</td>
<td>1</td>
</tr>
<tr>
<td>11.2</td>
<td>20.41</td>
<td>4</td>
<td>5</td>
<td>-1</td>
<td>1</td>
</tr>
<tr>
<td>12.58</td>
<td>20.53</td>
<td>2.5</td>
<td>4</td>
<td>-1.5</td>
<td>2.25</td>
</tr>
<tr>
<td>12.58</td>
<td>20.72</td>
<td>2.5</td>
<td>2</td>
<td>0.5</td>
<td>0.25</td>
</tr>
<tr>
<td>12.59</td>
<td>20.91</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>13.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data
\[ \rho = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)} \] the calculated \( p \) is 61%

Table 4.5 illustrates the correlation of the industry factors and profitability of the firm measured by return on earnings (ROE). According to the table output, Spearman correlation equalled to 66%. Based on the percentage ranking of the formulas output, this finding can be interpreted to mean that the relationship between industry experience and the profitability of Kenyan text book publishing firms is a moderate positive relationship.

Table 4.5: Correlation between industry factors and profitability (ROE)

<table>
<thead>
<tr>
<th>x1</th>
<th>x2</th>
<th>rank 1</th>
<th>rank 2</th>
<th>di(rank 1-rank 2)</th>
<th>di(rank 1-rank 2)^2</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.43</td>
<td>20.59</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>12.65</td>
<td>20.34</td>
<td>5</td>
<td>6</td>
<td>-1</td>
<td>1</td>
</tr>
<tr>
<td>12.71</td>
<td>20.41</td>
<td>4</td>
<td>5</td>
<td>-1</td>
<td>1</td>
</tr>
<tr>
<td>14.94</td>
<td>20.53</td>
<td>3</td>
<td>4</td>
<td>-1</td>
<td>1</td>
</tr>
<tr>
<td>15.48</td>
<td>20.72</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>15.83</td>
<td>20.91</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>12</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data

\[ \rho = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)} \], the calculated \( p \) is 66%

4.5 Summary of research findings

Chakava (1997) indicated that if the African publisher is to be empowered and enabled to deliver, the following five issues need to be addressed: policies, infrastructural development, finance, overall economic development, and market development. The study investigated the influence of these industry factors and findings indicated that finance was the most influential industry factor over the period between 1981 to 2010. It
4.5 Summary of research findings

Chakava (1997) indicated that if the African publisher is to be empowered and enabled to deliver, the following five issues need to be addressed: policies, infrastructural development, finance, overall economic development, and market development. The study investigated the influence of these industry factors and findings indicated that finance was the most influential industry factor over the period between 1981 to 2010. It can therefore be inferred that the major factor contributing to the Kenyan text books publishing sector industry experience related to financing. This finding is in line with Chakava (1997) who indicated that past experience indicates that indigenous African publishers (including Kenya) are undercapitalized. They get no assistance as no bank in Africa that we are aware of that will accept publishers' stocks as collateral at full value. He further noted that there are insufficient funds for pre-publication research, advance publicity material, post-publication activities such as advertising, launch parties, posters and other publicity gimmicks. Due to cash-flow problems, the publisher engages in short-term projects which can bring in immediate gains but which are not sustainable.

Moreover, findings indicated that the relationship between industry experience and the profitability of Kenyan text book publishing firms is a moderate positive relationship based on both industry average return on assets (ROA) and returns on earnings (ROE). This finding can be inferred to indicate that such a relationship is as a result of a moderate industry environment that is not fully developed especially as a result of the numerous financial challenges. However, the Kenyan text books publishing firms have been able to maintain moderate profitability over the investigated period of time. This
could be as a result of other favorable industry factors including but not limited to:
increased demand for educational materials especially primary school and secondary
school text books; favorable government policy, for instance the setting up of free
primary education and allocation of government funds to purchase text books and other
learning materials; positive overall economic growth especially during the last ten years
under President Kibaki's administration where economic development reached a peak of
7% GDP growth in 2007; and increased development and use of modern infrastructure
especially technological advancements within the Kenyan text books publishing sector.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The researcher drew conclusions based on the research findings (in Chapter Four) and in line with the study’s research objective which was to determine the relationship between industry experience and firm profitability in the Kenyan text book publishing sector. Research findings indicated that the respondents considered education policy, information policy, book publishing policy, press law, communications networks, initial capital, training costs, printing costs, inflationary factors in the country, alternative sources of knowledge other than books and literacy levels as important in influencing the operations of the Kenyan text book publishing firms, while advertising costs and market base as moderately important in influencing the operations of the firms as illustrated by Figure 4.4. Findings further indicated that the relationship between industry experience and profitability of the Kenyan text book publishing firms is a moderate positive relationship based on both return on assets (ROA) and return on earning (ROE).

The researcher concluded that despite the variations in the importance of policies, infrastructural development, finance, overall economic development and market developments in influencing the operations of Kenyan text book publishing firms over the thirty year period between 1981 and 2010, the overall relationship between industry experience and profitability of the firms has been a moderate positive one hence, the

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publishing firms have been able to maintain moderate profitability that is normal in a competitive business environment.

**Figure 4.4: Industry factors influencing operations of the firms**

From the figure above the higher the score, the more the factor it influenced the firms operations and the lower the score the lower it influenced the firms operations according to the respondent firms.

**Source: Research data**
5.2 Recommendations

Based on the conclusions of this study, the researcher recommends the following with regard to the relationship between industry experience and profitability of the Kenyan text book publishing firms. To the management of Kenyan text book publishing firms, the researcher recommends that alternative sources of finance should be explored that are cheaper and long-term in nature including but not limited raising private equity through the flotation of shares and forming joint ventures with similar firms. Management should also be more involved in the various associations representing their interest in order to positively influence policy making by government.

Policy makers, regulators and government in general should be sensitive when drafting policy and enforcing its implementation in order to ensure long-term profitability of Kenyan text book publishing firms through the creation of a level and competitive business environment. Government should also continue in investing in the infrastructure and overall economic development of the sector by providing affordable and accessible sources of finance, addressing copyright issues and lowering the cost of and other bottlenecks involved in doing business in Kenya.

5.3 Recommendation for further research

The researcher recommends that further research should be undertaken to investigate the factors affecting individual firm profitability by firms within the Kenyan publishing sector and the impact of information communication technology (ICT) on industry experiences as well as managers' perception of response strategies to environmental changes and their impact on firm profitability.
REFERENCES


44


Muhammad Mushtaq Mangat, Dr. M. Sarwar Rana Abdul-Rhim Wahab 2010 *Factors Affecting Pakistan-Spinning-Industry-Profitability*


Cambridge University Press.
APPENDIX I: LIST OF KENYAN PUBLISHING FIRMS

1. E.A.E.P.

2. Jomo Kenyatta Foundation

3. Kenya Literature Bureau

4. Longhorn Kenya Ltd

5. Longman

6. Macmillan (k) Publishers

7. Oxford University Press East Africa limited.

8. Phoenix publishers limited

APPENDIX II: QUESTIONNAIRE

Instructions: Kindly fill in by ticking (✓) the appropriate response.

SECTION A: Publishing Firm Demographics

1. What is the name of the publishing firm?

2. What is the nature of the ownership of the publishing firm?

   Private (domestic) ownership □

   Private (foreign) ownership □

   Public ownership □

   Other (Please specify) .............................................

3. If not public owned do you publish annual financial statements?

   Yes □

   No □

4. Which year was the publishing firm established? 19-- or 20--

5. Briefly describe the nature of work that the publishing firm was established to undertake:

   ..................................................................................
6. Please rate the importance of each of the following industry factors in influencing the operations of the firm. Scale: 5-Very important: 4-Important: 3-Moderately important: 2-Less important: 1-Least important

<table>
<thead>
<tr>
<th>Industry Factor</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Education policy</td>
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7. Please rate the extent to which each of the specified industry factors determined the firm operations over the following periods in time. Scale: 5-Very important: 4-Important: 3-Moderately important: 2-Less important: 1-Least important

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Other - (Please specify)
<p>| Category                        | 5 |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Press law                      |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Market development             |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Market base                    |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Literacy levels                |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Infrastructural development    |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Communications Networks        |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| (roads, railways)              |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |</p>
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Thank you.