FACTORS INFLUENCING LONG-TERM PERFORMANCE OF EPZ-AGOA TEXTILE - EXPORTING FIRMS WITHIN NAIROBI

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By

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

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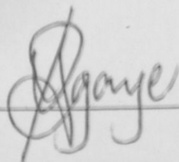
DECLARATION

This management research project is my original work and has not been submitted for a degree course in any other university.

Signature:  Date: 25 October 2007

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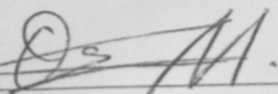
This management research project has been submitted for examination with my approval as the University Supervisor.

Signature:  Date: 25th/10/2007

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DEDICATION

To God for all His Guidance and strength, my late father, mother and brother, continue to rest in peace.

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This research project has been made a success by a lot of help from everyone I dealt with and must say I am very grateful for all the support I received during the period when I was researching and writing up this management research project. Special thanks go to my research project supervisor Dr Martin Ogutu, for his very valuable input in terms of guidance and support. I would also like to extend my sincere gratitude to the respondents, Managers at the EPZ firms for taking time off their busy schedules and for their co-operation and provision of timely, precise and adequate data for this project.

To the Odhaji family for the endless support during the whole period of my studies, more so my late dad for providing me with a strong foundation for my education, late mother and brother, continue to rest in peace. Uncle Audi, I will always cherish your guidance and support, and not to forget my kid brother Steve, with whom I would have not seen this study through, always helping out whenever I was down, I love you all.

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ABSTRACT

The textile industry in Kenya has gone through a lot of changes since the liberalization tendencies prescribed by the World Bank under the Structural Adjustment Programmes (SAPs) of the 1990s. Almost all the local factories closed shop unable to compete with cheaper new and second hand imports especially from Asia. In a bid to reverse this trend, the United States government enacted an act in May 2000 to under the auspices of African Growth and Opportunity Act (AGOA), which encourages production of textile products in developing economies of Africa and Asia.

In Kenya, these outfits have been operating within export processing zones (EPZs) where they enjoy certain concessions from the government such as tax holidays. With the extension of the act constantly under threat, there has risen a need to find out what strategies these firms employ in order to maintain their operations in the global market. The focus of the study is on factors influencing long-term performance of EPZ-AGOA textile exporting firms within Nairobi. These findings will definitely help the policy makers and stakeholders within the industry with future strategies on policy formulation geared at managing and planning for the long term.

CHAPTER ONE: INTRODUCTION

1.1 Background

Organizational forms and corporate strategies are intertwined with institutional contexts. Differences in the environment in which businesses operate inform the evolution of management and organizational structures. The mechanisms for control, authority relationships, division of labour and evolution of competitive advantages are closely related with relevant institutional contexts. Exploring how different businesses and economic organizations evolve under different institutional arrangements is central in understanding developmental processes such as industrialization. African countries increasingly look to industrialization as a key development strategy. Manufactured goods offer higher unit values and less volatile prices than either food or cash crops, and industrial jobs promise higher family incomes and improved quality of life, especially for the growing number of workers who have little land. Yet, in many parts of the continent, including Kenya, industrialization has not taken off as expected (McCormick et al, 1997).

Existing institutions have had important implications on enterprise performance and transformation. Such institutions can be viewed as formal and informal rules that guide human interactions such as commercial exchanges (North, 1990; Ferrard, 1998). Institutions have had various roles in creating and exacerbating the problems in Kenya's garment industry. Corruption has undermined many of the supportive policies that have been put forward (McCormick et al, 1997). Market liberalization has been poorly implemented and the state has failed to maintain the physical and communications infrastructure in a condition for profitable export business activity. The education system is also blamed for failing to provide the industry with a labour force complete with relevant skills. Moreover, the financial system is blamed for charging too much for credit, thus allowing large banks oligopoly power contributing to the garment industry's uncompetitive cost structure.

Kenya has been involved in trade in global markets for many years. Until recently, primary commodities such as tea and coffee were the main traded commodities. Trade in manufactured products began in the 1980s when a strategy of export-oriented manufacturing was promoted by the government. As in many developing countries, textile products, and especially garments, are important for employment and export growth (Kinyanjui and McCormick, 2002). While Kenya was a prime choice for foreign investors

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seeking to establish a presence in Eastern and Southern Africa in the 1960s and 1970s, the growing problems of corruption and governance, inconsistency in economic policies and structural reforms, and the deterioration of public services and infrastructure has generated a long period of low FDI that started in the early 1980s and continues to date (UNCTAD FDI/TNC Database, WIR 2004).

The growth in exports has followed the recent enactment of the US government's Africa Growth and Opportunity Act (AGOA) in May 2000, whose objectives are to increase trade between Sub-Saharan Africa and the United States (US) through reduction of tariff, non-tariff and other barriers, and through negotiation of trade agreements; integrate the region into the global economy; and expand US assistance to regional integration in Africa. The act benefits these firms through reduction of tariff, non-tariff and other barriers, and through negotiation of trade agreements; expands US assistance to regional integration in Africa; allows duty-free imports of many items from qualifying African countries in the American market and it also expected to eventually lead to creation of free trade areas (FTAs) between the US and interested Sub-Saharan African countries. The fact that the industry maintained the same production pattern is largely attributable to the fact that the main concern was to satisfy the rules of origin and thereby enjoy preferential market access to the American market. As such, the easy market access has to some extent inhibited further vertical integration in the textile and clothing industry (Ikiara and Ndirangu, 2003).

The passage of the AGOA by the US Congress offers new incentives to producers of both garments and textiles. AGOA allows garments and textiles from African countries to enter the US duty free for a period of 8 years beginning in October 2000, provided certain conditions are met however, further challenges remain. AGOA contains fairly stringent rules of origin requiring that garments be made from fabric wholly formed in one or more beneficiary Sub-Saharan African countries from yarn originating either in the US or one or more beneficiary Sub-Saharan African countries. This clearly poses a challenge to Kenya's sagging textile industry (McCormick et al, 2001).As businesses try to survive and thrive in an increasingly turbulent environment filled with ambiguities and uncertainties with the need for new information both internally and externally, strategy has become increasingly relevant. Chandler (1962) observed that strategy is the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out the goals. Strategy, as an assurance for long-term performance of firms is vital to the survival of the textile firms. Taking into

consideration the constraints of the domestic market, the government came up with the Export Processing Zone (EPZ) Act in the 1989-1993 Development Plan.

1.1.1 Export Processing Zone Firms

An EPZ is a region within a country designed to encourage the development of labor-intensive exports that use a high proportion of imported inputs, hence the term 'export processing' as most of the activity in EPZs involve the use of labor who 'process' imported inputs to then be exported. Many firms located in EPZs are either multinational corporations themselves or have some affiliation with one. In general, policies are of the free trade and free labor market type. Policies used include: duty-free imports of inputs to be used in the production process; tax exemptions; subsidies for land use or infrastructure development; and restrictions on the rights of workers to organize (Sodersten and Reed, 1994).

Export processing zones or EPZs have loosened tax and labor restrictions and their primary purpose is to generate export revenues in poor developing countries. EPZs are largely identical with free trade zones. Firms operating in Export-Processing Zones (EPZ) are exempted from all withholding taxes on dividends and other payments to non-residents during the first 10 years. They are also exempted from import duties on machinery, raw materials, and intermediate inputs. There are no restrictions on management or technical arrangements, and EPZ companies are allowed expedited licensing procedures. EPZ firms are allowed to sell up to 20 percent of their output on the domestic market. However, EPZ firms are liable for all taxes on products sold domestically plus a 2.5 percent penalty. There is no general system of preferential financing, although sectoral government development agencies in areas such as tourism and tea are supposed to provide funds at below-market rates to promote investment and exports.

1.1.2 Overview of the Kenyan Textile Industry

The Kenyan textile industry has since the early 1990s experienced unprecedented decline to the extent that both public and private interest in the sector was substantially eroded. In the last 2-3 years, however, substantial interest in the revival of the industry has emerged (Ikiara and Ndirangu, 2003). Part of the motivation has been the realization that the textile industry offers unique opportunities for increased employment, poverty reduction, rural development and generation of increased incomes in arid and semi-arid lands (Government of Kenya Economic Survey, 1996). Indeed, since Kenya qualified for AGOA, its exports to

the US have expanded remarkably and so has investment in this sector. This impressive performance is largely attributed to the fact that AGOA allows Kenya and other lesser-developed sub-Saharan African (SSA) countries to source for fabrics from anywhere in the world (Government of Kenya Economic Survey, 2000).

The industry is composed of firms of varying sizes and technologies. The firms produce for local, regional and international markets (McCormick et al 2001). Firms producing for international markets are mainly medium and large-sized while those producing for the domestic market are mainly small firms. Larger and smaller enterprises differ in the types of technology that they use. Large firms tend to engage in mass production and utilize industrial machines while small enterprises tend to use manual or electric powered machines. The firms' products in this sector include women's dresses, undergarments, children's clothes, shirts, shorts, trousers and T-shirts. Most of the garment-manufacturing firms are located in Nairobi, Mombasa and Nakuru.

The industry grew rapidly in the immediate post independence period. It thrived because of the protection offered to firms under the import substitution strategy in addition to the government's investment in the industry. The government, through the Industrial and Commercial Development Corporation (ICDC), invested heavily in the garment and textile industry holding significant shares in textile firms such as KICOMI, Rivatex, Kenya Textile Mills and Mountex. Privately owned garment firms evolved and thrived in the import substitution era. Examples of these private firms were: Yuken, Thika Cloth Mills, United Textile Mills, Sunflag, Spinners and Spinners and Raymonds. The firms operate in designated areas and produce exclusively for export. Firms in EPZs enjoy several benefits including tax holidays, exemption from VAT and duties on machinery, and lower priced raw materials and intermediate inputs (Kinyanjui, and McCormick, 2002).

Like manufacturing, textile firms benefited from the protectionist policies that lasted until the mid 1980s. However, the textile industry failed to create strong vertical and horizontal linkages with other sectors, which left them vulnerable when the protectionist policies were abandoned (Sharpley and Lewis 1988; McCormick, 1999). Furthermore, by the late 1980s, the failure of the Kenyan cotton industry and the move toward greater use of synthetic fibers put textile producers at the mercy of fluctuating global markets (Coughlin 1991).

1.2 Statement of the Problem

External changes in the Kenyan economy have contributed to the intense competition by firms in the country. With tougher competition in the European market, the AGOA introduced in 2000, can be the engine to drive the textile exports from Kenya. To qualify for benefits under AGOA, countries have to satisfy a range of normative and subjective criteria. Among others, it is important for countries to pursue "right" economic and political policies: reduce poverty; fight corruption; protect human rights and the rights of workers; and eliminate child labour (Salinger & Greenwood, 2001).

Kenya's textile firms are concentrated in the country's Export Processing Zones (EPZs), whose development is credited to the enactment of AGOA. It benefits these firms through reduction of tariff, non-tariff and other barriers, and through negotiation of trade agreements; expands US assistance to regional integration in Africa; allows duty-free imports of many items from qualifying African countries in the American market and it is also expected to eventually lead to creation of free trade areas (FTAs) between the US and interested Sub-Saharan African countries (Ikiara and Ndirangu, 2003).

With the fall in tariff and non-tariff barriers, Kenyan firms are being subject to further competition in an increasingly liberal market. Those that have maintained archaic production methods have been forced to restructure or close down. Kenya's Export Processing Zones (EPZs) have already shed 6,000 jobs since October 2005. In a bid to maintain their competitiveness, some big firms are contemplating relocating their activities to neighbouring countries. Provisions for the Act will expire on 30 September 2008 after which fabric will have to be obtained either from the US, the local market, or from other AGOA eligible Sub-Saharan African countries. The pertinent question therefore is whether the expiry of the Act will affect the long-term performance of the firms.

A number of studies have been done on the export business in Kenya. Ndinya (2000) undertook an empirical evaluation of the factors influencing investment in Kenya and found out that political stability; availability of power, cheap abundant labour, and ready market; quality of life; and good inland transport were important in investment decisions. Hapisu (2003) researched on the relationship between strategic planning and competitive advantage in the EPZs in Kenya. McCormick et al (1999) conducted a study on Institutions and the industrialization process for the textile products in Kenya and found out that existing institutions have important implications on enterprise performance and

transformation and had various roles in creating and exacerbating the problems in Kenya's garment industry.

In yet another study on Institution's view of Kenya's medium and large garment firms, McCormick et al (1999) found out that despite the government recognition of the potential contribution of this industry to industrialization, positive solutions to its many problems of weak demand stemming from low purchasing power, failed cotton sector, sagging textile industry, competition from second-hand clothes have yet to be developed. With regard to value chains in small-scale garment producers in Nairobi with respect to the challenges in shifting from the old global regime of import substitution to a more global regime, McCormick et al (2003), found out that the garment and textile industries in Kenya are in doldrums. This decline is mainly due to structural adjustments and subsequent liberalization.

The market liberalization in Kenya in the early 1990's had a significant implication on the textile and garment industry. Tariff reductions and the growth of informal uncustomed imports gave producers a wide range of inputs than were previously available. As a result EPZs were built in order to attract investors in manufacturing for export. (McCormick et al, 2003). In spite of the importance of the textile industry in Kenya and the issues relating to performance in the industry, no study has been done on factors affecting the long-term performance of the EPZ firms in this industry more so on firms under AGOA. This study therefore aimed at narrowing the existing gap. It looked into factors that influence the long-term survival and performance of the Kenyan textile firms that are manufacturing for export purposes. It will thus purpose to answer the question:

What factors influence the long-term performance of the EPZ textile-exporting firms that operate under the AGOA arrangement and are located within Nairobi?

1.3 Objective of the Study

The objective of the study was to establish the factors that influence long-term performance of EPZ- AGOA textile exporting firms located within Nairobi.

1.4 Significance of the Study

The findings of this study will be of much significance to the managers of the EPZ companies in the textile industry in terms of laying the base for their long-term strategic repositioning in order to remain not only competitive but also ensure their long-term survival. The report has unearthed several factors that affect the industry performance within the zone such as power costs and the labour factor.

New investors can use the report to carry out preliminary studies and due diligence before setting up Greenfield projects or acquiring existing going concerns. The government regulatory and policy formulating bodies like the Export Processing Zones Authority (EPZA) and Trade Ministry can use the report to aid them in policy formulation especially in relation to providing an enabling business environment for the investors.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Exporting and Long-term performance

Strategy is a multi-dimensional concept and various authors have defined strategy in different ways. Chandler (1962) in Strategy and Structure calls strategy "... the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals". Strategy is the match between an organization's resources and skills and the environmental opportunities and risks it faces and the purpose it wishes to accomplish (Hofer 1978). It is meant to provide guidance and direction for activities of the organization, since strategic decisions influence the way organizations respond to their environment, the purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment (Schendel and Hofer, 1979).

According to Ansoff (1965), the concept of strategy is the firm's business and the common thread, which is arrived at through the use of product-market scope. Andrews (1971), defines strategy in terms of corporate strategy as the pattern of major objectives, purposes, or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be. According to Jauch and Glueck (1984), strategy is "a unified and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization. Mintzberg (1994) defines strategy as a pattern in a stream of decisions and actions. He defines strategy as a plan, ploy, pattern, position, and perspective. Webb (1989) defines strategy as the process of deciding a future course for a business and so organizing and steering that business as to attempt to bring about that future course. It is the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholders' expectations Johnson and Scholes (2002).

By the concept of strategy, we mean its content and substance. Hax and Majluf (1996) have presented strategy as a multidimensional concept that embraces all the critical activities of the firm, providing it with a sense of unity, direction, and purposes, as well as facilitating the necessary changes induced by its environment. They provide a unified definition of the

concept of strategy as: a means of establishing the organizational purpose in terms of its long-term objectives, action programs, and resource allocation; a definition of the competitive domain of the firm; a response to external opportunities and threats, and internal strengths and weaknesses, in order to achieve a sustainable competitive advantage; a way to define managerial tasks with corporate, business, and functional perspectives; a coherent, unifying, and integrative pattern of decisions; a definition of the economic and non-economic contribution the firm intends to make to its stakeholders; an expression of strategic intent: stretching the organization; a means to develop the core competencies of the organization; and as a means of investing in tangible and intangible resources to develop the capabilities that assure a sustainable advantage.

Strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then over time initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are appropriate. In crafting a strategy, management is saying, in effect, "Among all the paths and actions we could have chosen, we have decided to move in this direction, focus on these markets and customer needs, compete in this fashion, allocate our resources and energies in this ways, and rely on these particular approaches to doing business". A strategy thus entails managerial choices among alternatives and signals organizational commitment to specific markets, competitive approaches, and ways of operating (Thompson and Strickland, 2003).Strategic management is a process in the sense that strategies are the outcomes of careful objective analysis and planning (Lynch, 2000). It has been considered by Hofer (1984) as a process which deals with fundamental organizational renewal and growth with development of strategies, structures, and systems necessary to effectively manage the strategy formulation and implementation process. Harrison and St.Johns (1998) see strategic management as a process, through which organizations analyze and learn their internal and external environments, establish strategic direction, create strategies and execute these strategies.

Strategies are essential to effective business performance in a changing environment. The selection of alternative courses of action based on assessment of important external and internal factors are becoming essential parts of a manager's job. Pearce and Robinson (2002) identified various strategies for long-term performance and survival of firms. The strategies include concentration on the current business, market development, innovation, horizontal integration, vertical integration, joint ventures, concentric diversification, conglomerate diversification, retrenchment or turnaround strategies (cost and asset

reduction), divestiture and liquidation. Jauch and Glueck (1988) noted that combinations of these strategies are possible. They observe that there is an overlap in how these strategic approaches can be put together for any given firm to improve performance. They further note the any alternative or combination has the potential to improve performance and the approach for the selection will depend on various internal strengths and weaknesses, environmental threats and opportunities and the value preference of the strategists.

According to (Reh, 2002), a long-term time horizon is the most important aspect of business operations. He argues that in the short-run, it's nearly impossible to forecast what will happen in the business' environment of operation. By focusing on long-term fundamentals, business executives can rely on underlying business values and how those values change with time. A long-term focus provides clarity, and reduces the "noise" of short-term events. He believes that a long-term focus is also the best approach for individual investors and that long-term performance is generally the best gauge when evaluating business operations.

The performance of an organization is judged, either externally or internally, on its ability to meet Key Performance Indicators (KPI's). According to Johnson, Scholes and Whittington (2005), KPI's include the outputs of an organization such as product quality, revenues or profits. Key Performance Indicators are quantifiable measurements, agreed to beforehand, that reflect the critical success factors of an organization. They will differ depending on the organization (Reh, 2002). However, he argues that whatever Key Performance Indicators selected, they must reflect the organization's goals, they must be key to its success, and they must be quantifiable (measurable). Usually, Key Performance Indicators are long-term considerations. The goals for a particular Key Performance Indicator may change as the organizations goals change, or as it get closer to achieving a goal.

2.2 Factors influencing Long-Term Performance of Firms

According to McDonald (2000), performance of firms in a given industry is influenced by various factors. He identified these factors as covering the business environment, the market situation, competition in the industry and the industry itself. In the business environment, these include the economic factors, political-legal factors, fiscal factors, the technological developments, social-cultural factors as well as the intra-company issues such as the company's systems, structure, skills, staff, and style. For the market situation, he points out the trends in market size and growth, developments or trends in prices, developments in communications and the trends in the purchasing patterns and channels of

distribution. Firms' long-term performance is influenced by competition in terms of the marketing strategies, new entrants in the industry and the reputation of mergers and acquisitions in the industry. McDonald (2000) further states that the activities of trade associations, changes in cost structure, sources of raw materials, technological developments and energy utilization of firms in a given industry have an impact on their long-term performance.

Industry conditions change because important factors drive industry participants (competitors, customers, or suppliers) to alter their actions. While it is important to judge the performance of firms, there is value in identifying the factors causing fundamental industry and competitive adjustments (Thompson and Strickland, 1998). According to them, the most common driving factors are the changes in the long-term industry growth rate, changes in who buys the product and how they use it, product innovation practices in the industry, technological changes and the diffusion of the technological know-how, market innovation practices, exit or entry of other firms and increasing globalization of the industry. Also noted are the changes in the overall changes in cost and efficiency in the industry, the emerging buyer preference for differentiated products, the regulatory influences and government policy changes, changing societal concerns, attitudes, and styles and the reductions in uncertainty and business risk.

With regard to the textile industry, the opening of markets in the early 1990s as a result of the SAPs prescribed by the Bretton Woods Institutions (the World Bank and the International Monetary Fund) had a major impact on the industry. The availability of cheap imports - both new and second hand - drastically reduced demand for Kenyan made garments. The textile industry faced competition from a new form of trade in second hand clothes and a result it could not cope with the new competitors. Major players in the garment and textile industries such as Kenya Textile Mills, Rivatex, Raymonds and Kisumu Cotton Mills closed down (McCormick et al. 2001).

The high cost of doing business in Kenya is another factor. High wage rates for unskilled workers relative to other African and Asian countries put Kenya at a competitive disadvantage, particularly because the higher wages do not reflect greater productivity. Other factors increasing the cost of doing business include relatively high import duties, high interest rates, and high-priced, unreliable utilities. Both imports and exports are hampered by customs procedures that are detailed and rigidly implemented, and inefficient procedures at Kenya's principal port in Mombasa. Kenya's export taxes on certain products

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such as hides, skins, and scrap metals discourage raw material exports. These export taxes and bans limit the export of these products by raising export costs and encourage industries for which Kenya may not have a comparative advantage (Salinger and Greenwood, 2001).

According to the EPZA Annual Report of 2003, the constraints reported by EPZ companies as affecting their operations include the uncertainty in the extension of the African Growth Opportunity Act (AGOA), unreliability in power supply, the poor state of Kenyan infrastructure, labour issues and unrests, customs regulations, high costs of production and international competition, and the unavailability to serviced industrial land. The EPZA Annual Report of 2004, report that the constraints or impediments faced by EPZ enterprises stems from the high cost of doing business in Kenya as a result of low labour productivity, dilapidated infrastructure, customs regulation and high cost of power. For the year 2004, the constraints encountered by EPZ enterprises included low labour productivity and inefficiency, high cost of power and water, customs regulations, high cost of production, poor state of infrastructure, various delays (container delivery, raw material arrival, and getting exemptions where required), KPA's port regulations, government policies, high costs of telecommunication, non-availability of inputs locally, and the removal of Textile Quota under World Trade Organization.

Other constraints reported include the shortage of orders, low business activity and closure of some EPZ companies, the bureaucracy of various kinds, labour unrests, insecurity in the country, currency or foreign exchange fluctuations, local and international competition, and others such as unfavorable weather, unforeseen calamities, unfamiliarity with local procedures, VAT Visa processing, new levies, price reduction and the East African Community becoming domestic market in addition to the development of market driven products.

2.3 Developments in the Kenyan Textile Industry

The Kenya garment and textile industry has since the early 1990s experienced unprecedented decline to the extent that both public and private interest in the sector was substantially eroded (Ikiara and Ndirangu, 2002). The industry is composed of firms of varying sizes and technologies. The firms produce for local, regional and international markets (McCormick et al 2001). Firms producing for international markets are mainly medium and large-sized while those producing for the domestic market are mainly small firms. Larger and smaller enterprises differ in the types of technology that they use. Large

firms tend to engage in mass production and utilize industrial machines while small enterprises tend to use manual or electric powered machines. The firms' products in this sector include women's dresses, undergarments, children's clothes, shirts, shorts, trousers and T-shirts. Most of the garment-manufacturing firms are located in Nairobi, Mombasa and Nakuru (Kinyanjui, and McCormick, 2002).

The garment and textile industry in Kenya dates from the colonial period. As early as 1954, the industry had a total of 74 enterprises employing 2,477 workers (Kinyanjui, 1992). Until recently the garment industry was one of the most important manufacturing activities in Kenya. The industry grew rapidly in the immediate post independence period. It thrived because of the protection offered to firms under the import substitution strategy in addition to the government's investment in the industry. However, the textile industry failed to create strong vertical and horizontal linkages with other sectors, which left them vulnerable when the protectionist policies were abandoned (Sharpley and Lewis 1988; McCormick, 1999). It also grew because of government investment in the industry. The government through its parastatal - Industrial and Commercial Development Corporation (ICDC) - invested heavily in the garment and textile industry. The government had significant shares in textile firms such as KICOMI (Kisumu), Rivatex (Eldoret), Kenya Textile Mills (Thika) and Mountex (Nanyuki). Privately owned garment firms evolved and thrived in the import substitution era (EPZA report, 2001).

Furthermore, by the late 1980s, the failure of the Kenyan cotton industry and the move toward greater use of synthetic fibres put textile producers at the mercy of fluctuating global markets (Coughlin 1991). Market reforms were aimed at opening up local markets through the reduction of import duties and tariffs. The latter measure had a significant impact on the previously protected firms, which were operating inefficiently, producing sub-standard goods, over-pricing their products and producing below their output capacity. The opening of markets in the early 1990s as a result of the SAPs prescribed by Bretton Woods Institutions (the World Bank and the International Monetary Fund) had a major impact on the textile industry. The availability of cheap imports - both new and second hand - drastically reduced demand for Kenyan made garments. The textile industry faced competition from a new form of trade in second hand clothes and a result it could not cope with the new competitors. Major players in the garment and textile industries such as Kenya Textile Mills, Rivatex, Raymonds and Kisumu Cotton Mills closed down (McCormick et al. 2001).

2.4 Kenya's Export Profile

Tea, refined petroleum products, cut flowers, coffee, and vegetables comprise Kenya's main exports. The top markets for Kenya's exports are its fellow COMESA members, the EU, and United States of America. Apparel accounts for a large and growing share of Kenya are exported to the United States. Kenya's 2004 exports under AGOA and its GSP provisions- mostly apparel, but also including cut flowers, nuts and light manufactures- were valued at $287 million; representing 81% of total Kenya exports to the US. Kenya's economic strengths and potential growing sectors include horticulture, textile/apparel, pyrethrum, coffee, and tourism (EPZA Annual Report, 2003).According to a recent USAID- sponsored study commissioned by COMESA, Kenya will continue to have a comparative advantage in some apparel products after the elimination of global apparel quotas, thanks in part to AGOA. However, the long-term viability of the apparel sector will depend on government and private sector efforts to address policy and infrastructural constraints to competitiveness and the success of regional efforts to promote vertical integration in the cotton tarn-textile-apparel-value chain.

As early as the late 1970s, the government of Kenya attempted to promote export oriented manufacturing. The policy incentives initiated to promote manufacturing exports included the development of industries in a wider sub-regional and continental basis. This initiative was accompanied by export promotion measures such as export compensation schemes. According to McCormick (1999), these early attempts to promote export oriented manufacturing did not succeed for two reasons. First, prolonged protectionism made it more profitable for firms to sell their products in the domestic market rather than in global markets. Second, firms were discouraged from taking advantage of export promotion schemes by bureaucratic delays, inefficiencies, and the corruption that surrounded them. In the mid 1980s the government introduced the Manufacturing Under Bond (MUB) legislation and the green channel system for administrative approvals in order to promote industries manufacturing for export. Firms operating under MUB are exempted from VAT on imported plant machinery, equipment, raw materials and other imported inputs. Firms are also allowed 100 percent investment allowance on plant machinery, equipment and buildings (Kinyanjui, and McCormick, 2002).

The principal domestic impediments to exports in Kenya are largely the same factors that have restricted the growth of the economy as a whole, including lack of government transparency particularly in government procurement and dispute settlement, incomplete

implementation of reforms and projects, crime, and poor transportation infrastructure. Kenyan firms pay more unofficial fees, provide more of their own infrastructure, and face more regulation than competitors in countries such as China and India (Ikiara and Ndirangu, 2003).Business indicators are generally better than regional averages. Kenya fared worse than regional averages in six business environment indicators: recovery rate when closing a business, time required to close a business, private bureau credit coverage, public credit registry coverage, number of procedures to register a business, and the number of procedures to start a business. Kenya's economic score improved between 1995 and 2000, but deteriorated between 2000 and 2005. Notably, the trade policy component fared worse than all other indicators of economic freedom. Kenya scored in the moderate or better range for indicators such as level of government consumption, monetary policy, foreign investment and property rights (Kinyanjui and McCormick, 2002).

Corruption is frequently cited as a major or severe obstacle to the operations and growth of the Kenyan private sector. Grumbling transport infrastructure, inadequate marketing, and increased competition from Mauritius, South Africa and Tanzania have hurt the tourism industry in recent years. Terrorist acts have caused several western countries to issue negative travel advisories that have had an adverse impact on tourism. Kenya does not qualify for the U.S Federal Aviation Administrator's Category one certification and, consequently, air-freighted exports designed for the U.S markets must first be shipped to other countries that qualify. This adds additional time and expense and reduces the competitiveness of Kenyan exports of flowers, fresh fruits, and vegetables in the U.S market. Lack of certification also prevents Kenya Airways from transporting tourists directly to and from United States. Kenya is currently renovating and improving security measures at the Jomo Kenyatta International Airport in order to attain Category One Status, which would enhance the country's export potential. The horticultural sector faces some difficulty in meeting environmental and safety standards in the EU and US markets and producers have limited capacity to meet these standards (Coughlin 1991).

2.5 Export Processing Zones

Many economies are characterized by policies and regulations that are significantly biased against exports. As Wanyama (2003) noted, export manufacturers operating in developing countries often encounter many constraints that impede on their ability to effectively compete in the international markets. The constraints experienced by these exporters include overvalued exchange rates; lack of local expertise; impaired access to foreign

exchange; artificial wage structures; inefficient and problematic infrastructure; and high duties and other tariffs on imported raw materials, intermediate goods, and capital equipment. A number of developing countries have used EPZs in order to remove the bias against exporters and encourage foreign investment in export manufacturing.

An export Processing Zone is any area that for the time being is designated by law as outside the national territory for the purpose of the operation of the customs laws (Wanyama, 2003). It is an industrial area that constitutes an enclave with regard to customs' tariffs and the commercial code in vigour in the host country. The country receiving investment, mainly of foreign origin, grants enterprises establishing in such zones certain concessionary advantages with regard to the national regulatory environment, principally with regard to taxation. The enterprises that benefit from these exemptions and fiscal advantages are required to produce goods essentially, if not wholly, for export. Consequently, an EPZ is a promotion instrument that is geared towards attracting international investment producing goods for export and encouraging local or indigenous manufactures to focus on export development. Romero (1996) defines EPZs as industrial zones with special incentives to attract foreign investment in which imported materials undergo some degree of processing before being exported again. According to him, these zones are indistinguishable from organized, modern business complexes, but in many others, they take the form of ring-fenced enclaves of industrial monoculture. No matter what form EPZs take, the free trade, foreign investment and export-dive n ethos of the modern economy has transformed them into "vehicles of globalization".

The transition of Kenya from a less developed monocrop economy to a middle-income developing economy with a diversified economic base owes much to the development strategy pursued since independence. Taking into consideration the constraints of the domestic market, the government came up with the Export Processing Zone (EPZ) Act in the 1989-1993-development Plan period (Kinyanjui, and McCormick, 2002). The Act provided for the creation of an independent private sector-oriented administrative authority to oversee the development and administration of the Export Processing Programmes. The EPZ Act stipulates the mandate, objectives and role of the EPZ programmes in Kenya. The EPZ sector aims at attracting part of the international investment funds and draw upon the manufacturing expertise and know how of international investors; creating direct employment in the EPZs and indirectly through subcontracting and sourcing of raw materials and services; earn foreign exchange; improve training and technology transfer

and expertise in management, marketing, production, etc. and creating linkages to local manufacturers and suppliers thereby offering international exposure to local enterprise (EPZA report, 2003).

According to Ndinya (2000), the EPZ ventures provide for two categories of licenses. The EPZ developer or operator license provides for the role of development and management of high quality industrial parks while the enterprise license caters for manufacturing and processing; commercial activity to or preceding manufacturing such as bulk breaking, re-labeling, grading, re-packaging and trading; and export related services including consultancy, information, brokerage and repair operations. He further observed that EPZ products include cotton yarn, pharmaceutical products, security printing, assembled vehicles, horticulture produce, plastic items, sisal buffs, garments, refined petroleum products and computers.The long-run growth and development of EPZs, UNCTAD notes, will depend on whether they are well-equipped to meet the challenges emerging from the structural changes in both the domestic and the international economy including changing patterns and more exigent requirements of FDI. The current worldwide industrial restructuring demands additional locational assets, such as highly skilled labour force and availability of a comprehensive support network and crucial industrial services. Host countries therefore had to upgrade not only skills and educational levels of labour force but also the technological infrastructure of the EPZs. The long-term viability of EPZs also requires their operations to be properly integrated in the overall economic and industrial development strategy of the country.

Continuing globalization of international markets will have a significant impact on free zones in the coming years. EPZs will be particularly affected by two WTO agreements: the Agreement on Subsidies and Countervailing Measures (ASCM), which prohibits tax derogations (particularly for EPZs) as of 2003 in countries with GDP per capita exceeding $1,000 (this deadline has been extended for some developing countries following the Doha Conference); and the ending in 2005 of the quotas imposed by industrialized countries on textile exports from the developing countries (Multifibre Agreement), which will lead to a redistribution of world production in this sector and have a significant effect on EPZs (Sargent and Matthews, 2001).According to Wanyama (2003), the EPZ is no different from any other type of innovation and in retrospect, many of the understandable fears expressed in the early days of the EPZ programmes turned out to be groundless, or at best vastly exaggerated. As Catherine (1987) noted, the fear was that multinational investors in the

EPZs were ready to pull out on the first occasion and settle in other countries offering favourable conditions. In fact, once EPZ firms have been established, turn out to be rather stable even if their relatively modest initial capital investment makes it easier for them to move out than it would be for a very heavy investor (ILO-UNCTC, 1988).

Ndinya (2000) notes that the incentives provided under the programmes in Kenya include ten years' tax holiday; duty and tax free access to inputs and capital equipment; relief from exchange controls; liberal conditions for repatriation of capital interest and dividends; expeditious investment approval process; expeditious processing of work permits for essential expatriate workers; and green channel treatment as regards to processing of imports and export cargo documentation. He notes that the government has fully appreciated the imperative to maintain an overall favourable investment climate to ensure efficient operating conditions in the zones and address infrastructure constraints faced by investors.

However, EPZ operators accuse the Kenya Revenue Authority (KRA) of causing delays at entry points through the introduction of a compulsory physical verification of imported raw materials and capital goods to check against abuse of the duty-free import incentive allowed for EPZ firms. The operators say the delays have increased operation costs and led to loss of orders from time-conscious American importers. Besides logistical issues, Kenya's EPZs need to diversify their products through ventures into growth areas such as information and communications technology. However, there are fears that the economies of scale that Chinese producers have access to, the sophistication of their factories, and the low wages paid to their workers will overwhelm any advantage that African producers enjoy as a result of AGOA. India is also poised to seize a large share of the global textile trade with the expiry of the Multi-Fibre Agreement. "Africa needs to explore ways of becoming competitive and comparative. This will involve things like cutting down their production costs and labour costs in order to be at par with China (McCormick, et al., (2001).The impact of EPZs on employment and exports in developing countries is often far from negligible, although it would be an exaggeration to say that they are a key factor in development strategies. In this context, it is important to highlight the threat to the durability and potential of EPZs, particularly from evolutions in world trade policies. Another factor that is even more difficult to assess is the impact of new forms of the international division of labour, with technological progress leading in some cases to relocation of some activities in the North

and, in the other direction, the increasing trend towards sub-contracting to "firms without factories", etc. (Cling and Letilly, 2001).

The adoption of export-led growth strategies by developing countries is directly responsible for the considerable expansion of export processing zones (EPZs) since the 1980s. EPZs have expanded considerably in recent years as most developing countries have adopted export-led growth strategies. Historical experience shows that the hopes initially raised in developing countries by the free zones have proved excessive. In fact, EPZs have only made a significant contribution to development in a very small number of emerging countries, in Asia (Indonesia, Malaysia, etc.), Latin America (Mexico) and Mauritius. To date, projects for free zones have almost systematically failed in Sub-Saharan Africa. The only exception is Madagascar. Thanks to the success of EPZs since the 1990s. Four interlocking goals can be distinguished as reasons for deciding to set up Export Processing Zones (Madani, 1999). The first aims at sparking off a process of industrial development, in which the EPZ is part of a wider economic reform strategy. The second seeks to provide a safety valve as relief from unemployment difficulties and to amass foreign exchange. The third consists in using EPZs as experimental laboratories for free market policies. Finally, most EPZs are created for the purpose of attracting foreign capital to bolster the economies' competitiveness. Other than these specific goals, countries establishing EPZs also seek to promote the transfer of technology and to improve the efficiency of their productive tissue, thanks to better manpower training offered by enterprises in the zones and to demonstration effects.

Economic development and export expansion can be stimulated in developing countries through Export Processing Zones (Wanyama, 2003). Firms in the EPZ heavily stimulate employment because of their ability to utilize labour intensive production processes. In addition, by providing incentives, a streamlined operating environment, a suitable infrastructure and facilities the EPZ Act catalyzes private investment both foreign and domestic. A host country also boosts of a developed domestic industry stimulated by EPZs through the consumption of local products and services. Through backward linkages, local firms in the country develop the skills and expertise to supply EPZ firms with higher value-added inputs. Increasingly, EPZ-sponsoring nations are encouraging local as well as foreign business to locate in EPZs, thereby establishing direct production relationship with European, North American and Asian markets (Hapisu, 2002).

Wanyama (2003) noted the financial benefits accruing from the EPZs to the host country. He argues that although EPZ firms can generally freely repatriate their earnings, a substantial portion of their earnings is converted into local currency to pay for local costs such as labour, raw materials, rent utilities and transportation. He further states that EPZs contribute to the growth of the non-traditional export sector in attracting manufacturing and light industries thereby stimulating a diversified export programmes in the country as a whole reducing the country's dependents on traditional exports.

Export-Processing Zones act as vehicles for industrial deepening through increasing proportion of economy in industrial production, increasing integration of industrial processes, greater self-sufficiency; obtain more inputs from domestic economy; training and upgrading of labor capabilities, raising productivity of labor, increasing reliance on domestic (local) suppliers, backward integration, increasing number and competition among suppliers, increasing specialization of suppliers greater efficiency, raising the technology intensity or sophistication of production processes, and emphasize variety among developing countries (Stoever, 2005). EPZs were also intended to facilitate a host country's transition to a more open economy; serve as a visible demonstration to foreign and local investors of the government's intentions to liberalize the overall economy; introduce a possibility of experimenting with new policy instruments; provide enclaves with dependable infrastructure in order to facilitate the manufacturing and exporting functions; and present one package of incentives, among others being offered by the government, from which investors can choose (Ndinya, 2000).

Firms operating in Export-Processing Zones (EPZ) are exempted from all withholding taxes on dividends and other payments to non-residents during the first 10 years. They are also exempted from import duties on machinery, raw materials, and intermediate inputs. There are no restrictions on management or technical arrangements, and EPZ companies are allowed expedited licensing procedures. EPZ firms are allowed to sell up to 20 percent of their output on the domestic market. However, EPZ firms are liable for all taxes on products sold domestically plus a 2.5 percent penalty. There is no general system of preferential financing, although sectoral government development agencies in areas such as tourism and tea are supposed to provide funds at below-market rates to promote investment and exports (Kinyanjui, 1992).

EPZs as vehicles for development are somewhat controversial. They distort production away from country's comparative advantage as they specialize in unskilled labor-intensive production immiserizing growth (Kaplinsky, 2003). Some EPZs' net earnings do not cover costs of creating them and/or investment incentives to foreign manufacturers, some remain stagnant and fail to upgrade/ integrate into host economy. Others fail to create relatively few backward linkages/ spillover effects/ demonstration effects, they not responsive to local political needs and developments and they keep workers in "low-wage bondage."

On the other hand, EPZs have been criticized for exploiting local labour. These zones are marked by abuses of labour rights, the use of child labour and payment of starvation wages (international conference of free trade, 1996). According to the Export Processing Zones Authority report of 2003, the firms in the EPZs have accused of being characterized by lack of trade union representation of their workers; low wages; non-remittance of workers' statutory deductions (NSSF and NHIF); unattainable production targets; non existent compensation of sick-offs; inexperienced human resource staff in the factories; poor working conditions, human relations and harassment in a few of the factories; lack of an Africanized management. Wanyama (2003) cites the lack of linkage to the local economy by EPZ firms. He states that the slow pace of backward linage is caused in part by the lack of ability by the products and services produced EPZ firms to compete on the world markets. Rajiv (1989) argues that local producers should first have a competitive product or service before expecting that the zone enterprise will buy from them.

2.6 The African Growth and Opportunity Act (AGOA)

On May 18th 2000, the President of the United States signed into law the Trade and Development Act of 2000, which included the African Growth and Opportunity Act (AGOA) that provide for duty-free treatment of certain articles imported to the United States from designated beneficiary countries of sub-Saharan Africa. The stated intent of AGOA is the promotion of "stable and sustainable economic growth and development in sub-Saharan Africa" and increases in both trade and investment levels. The Act provides unprecedented opportunities for the beneficiary countries and aims to: promote increased trade and investment between the United States and sub-Saharan African countries; provide eligible African countries with liberal access to U.S.; promote economic development and reform in sub-Saharan Africa by granting tangible benefits to entrepreneurs, farmers, and families; promote increased access and opportunities for U.S. investors and businesses in sub-Saharan Africa (Nyaboga and Mwaura, 2003).

The Act also provided the following: establishment of a U.S. Sub-Saharan Africa Economic Cooperation Forum; expanding U.S. assistance to sub-Saharan Africa's regional integration efforts; expanding the Generalized System of Preferences (GSP) program to provide duty-free treatment to virtually all products exported to the U.S. from sub- Saharan Africa; institutionalizing a high-level economic dialogue and take initial steps toward consideration of a Free Trade Area; protecting African workers and U.S. jobs through the creation of tough safeguards against trans-shipment; and requiring that human rights and internationally recognized worker rights be respected (U.S. Customs Service, 2001).

AGOA provides three important benefits to eligible sub-Saharan African exporters: First, it extends the duty-free treatment under the GSP program through September 30, 2008. Second, the AGOA eliminates most of the limitations of the GSP program for eligible sub-Saharan African countries. Third, AGOA expands the product coverage of the GSP program but only for products from sub-Saharan Africa thus assuring the sub-Saharan exporters and their American customers that the duty-free treatment will not lapse for sometime. While AGO primarily focuses on preferential trade programs, it also includes a number of the complementary provisions: AGOA created a Presidential and Cabinet level U.S. Sub-Saharan Africa Trade and Economic Cooperation Forum that a will institutionalize America's economic engagement with Africa, and secure, through structured dialogue on all levels of government, the private sector and the non-governmental organizations (U.S. Agency for International Development, 2000).The AGOA has received substantial criticism especially from non-governmental organizations (NGOs). Some of the criticisms leveled against the Act are that the Act is a unilateral US provision that could be withdrawn at its whim. It has been argued that the Act vests excessive powers over trade issues to the US president and the uncertainty caused by possibility of withdrawal discourages investment, which is one of AGOA's objectives. The condition that exports into the US market will only be allowed if they do not damage US companies also creates substantial uncertainty. Furthermore, AGOA benefits are transient and are likely to disappear as globalization opens markets, including the American market (Ikiara and Ndirangu, 2003).

Because of subsidization of US cotton farmers (US Farm Bill), there are hardly any benefits for Sub-Saharan African countries. It has been estimated that cotton producers in West and Central Africa lose US$ 250 million annually through price declines because of these US subsidies (Badiane et al., 2002). Product coverage is narrow, with key agricultural products excluded. The Act could threaten regional trade initiatives such as EAC, COMESA and SADC

because only the more developed countries within these blocs have sufficient capacity to benefit from the Act. Moreover it has been argued that eligibility conditions are not only stringent but also likely to have adverse impacts on poverty reduction in Africa (they are similar to the structural adjustment programmes that failed) yet poverty alleviation is one of the Act's objectives. In addition, the Act fails to address the continent's debt and overall economic crises, supply-side constraints, and to offer new development assistance, which is critical for poverty alleviation. However, the US provided US$ 192 million in trade capacity building assistance to 31 SSA countries between 1999 and 2001 (US Government, 2002). These criticisms and their validity notwithstanding, AGOA is a good intervention for Africa because it provides an opportunity to build capacity in textile and apparel industries. Such capacity would then serve the continent well when globalization has eroded all preferential arrangements (Ikiara and Ndirangu, 2003).

To qualify for benefits under AGOA, countries have to satisfy a range of normative and subjective criteria. Among others, it is important for countries to pursue "right" economic and political policies: reduce poverty; fight corruption; protect human rights and the rights of worker; and eliminate child labor. On another note, it is also necessary to maintain an effective visa system; legislation to permit US Customs Service access to the countries of export; reportage provisions; full cooperation with the US; complete record keeping and reports on manufacturing capabilities. Once a country meets these conditions, AGOA offers duty-free access to the U.S. market for African apparel items made of fabric and yarns originating either in the U.S. or in eligible sub-Saharan African countries. In March 2001, Kenya became one of first two countries (the other being Mauritius) eligible to benefit from the preferential market access under AGOA (Thakoor, 2003).

Under the initial AGOA, by 2008, Sub-Saharan Africa (SSA) exports were subject to a capping of 3.5 percent of the aggregate square meter equivalents of all apparel articles imported into the U.S. in the previous year. With AGOA II, this capping has been raised to 7 percent. This represents a formidable opportunity to raise regional exports to the United States. Although there is no limit on the export volume of garments assembled in beneficiary African countries from fabrics wholly formed and cut in the U.S., the volume of duty-free African apparel exports to the U.S. made of fabric sourced from regional (African) or world markets is subject to quantitative limitation. From October 2000 through September 2001, this cap was equal to 1.5 percent (Nyaboga and Mwaura, 2003). This was to be filled on a "first come, first served" basis from all eligible African countries. Under

AGOA II, the capping has been doubled to 7 percent. While the cap may at first glance seem quite low, Africa's apparel exports to the U.S. were an extremely small portion of total apparel imports in 2000 (0.6 percent). Thus the cap actually offers substantial growth potential from current levels. To put things in perspective, six countries (Kenya, Lesotho, Madagascar, Mauritius, Swaziland and South Africa) account for more than 90 percent of Africa's apparel exports to the US (Thakoor, 2003).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study was conducted through a census survey. It purposed to look into factors influencing long-term performance in the textile industry, a census of all EPZ-AGOA firms located within Nairobi. This design was appropriate as there were only 18 firms, a number that did not warrant sampling. The list of the firms under study was obtained from the Trade Ministry.

3.2 Population of Study

The target population of the study consisted of all EPZ-AGOA firms in the textile and apparel manufacturing and exporting sector located within Nairobi. According to the AGOA office at the Ministry of Trade and Industry, there were 18 firms located within Nairobi and registered under the AGOA showing as at May 2006 (Appendix II). These firms were located in Athi River, Ruaraka and Nairobi's Industrial Area; all of which were considered to be located within Nairobi for the purpose of this study. The firms are regulated by the Export Processing Zones Authority (EPZA) in collaboration with the AGOA office in the Ministry of Trade and Industry.

3.3 Data Collection Method

The study was done using primary and secondary data collected by way of semi-structured questionnaire (see Appendix II). The questionnaire was divided into four sections. Section one solicited data on organizational profile, section two focused on the firms strategic planning, section three targeted data on factors influencing long-term performance of the firms and section four was used to collect secondary data on actual performance of the firms over a 5 year period. The questionnaire was administered by way of mail/courier. Targeted respondents were corporate planning managers within these firms. They were picked because of their involvement in strategic planning and decision making and were thus be deemed to be in a position to have knowledge on the factors influencing long-term performance of the firms.

3.4 Data Analysis

The study made use of the Statistical Package for Social Sciences (SPSS) to facilitate the analysis. Percentages and frequencies were used to analyze sections one and two of the questionnaire. These sections relate to issues on organizational profiles and strategic planning. Mean scores were used to determine factors influencing long-term performance of the firms and identify the critical ones. Correlation analysis was used to determine whether factors influencing long-term performance of the firms depend on or relate to organizational profile factors or certain strategic planning practices. Trend analysis was used to analyze secondary data collected in section four of the questionnaire while qualitative data was analyzed by way of content analysis. The findings were presented in tables and graphs where necessary.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter is divided into three sections related to the main objective of the study. The first section captures and analyzes the general information about the organizations. The second section presents information about strategic planning by the organizations while the third section analyzes different factors that influence the long-term performance of the organizations. In this study only 8 respondents were interviewed out of the targeted 18 EPZ-AGOA textile firms under study. All the 8 firms responded accounted for 44% response rate. 6 firms representing 33% of the population were found to have closed shop in Kenya. No response was received from the remaining respondents accounting for 23% of the firms.

The completed questionnaires were collected, checked for completion, cleaned, edited and coded ready for analysis. Data was analyzed using percentages (%), mean scores (Msc) and Standard deviations (SD). Mean scores were used to determine the extent to which various factors influenced the long-term performance of the organizations on a five point Likert-Type scale ranging from "To a very large extent" (5) to "Not at all" (1) as well as on dichotomous "yes" or "no" questions.Standard deviations (SD) were used to determine the varying degrees of the differences with which the factors influenced the long-term performance of the organizations. The scores "Not at all" and "To a small extent" represented a factor considered to a "Small Extent" (SE), equivalent to 1 to 2.5 on the continuous Likert-Type scale ($1 \leq SE < 2.5$). The scores of "To a fairly large extent" represented a factor considered to a "Moderate extent" (ME). This was equivalent to 2.6 to 3.5 on the Likert-Type scale ($2.6 \leq ME < 3.5$). The score of "To a large extent" and "To a very large extent" represented a factor considered to a "Large extent" (LE). This was equivalent to 3.6 to 5.0 on the Likert-Type scale ($3.6 \leq LE < 5.0$).

4.2 General information on the organizations

This section enabled us to understand the scope of the study and draw relevant conclusions in line with the problem statement and research objective.

4.2.1 Company ownership

Different forms of ownership exist in organizations. The respondents were therefore asked to indicate the category under which the ownership of their respective organizations fell under; the results were recorded in Table 1.

Table 1: Company Ownership

Ownership	**Frequency**	**Percentage**
Foreign owned	8	100.0
Locally owned	0	0
Joint: foreign and local ownership	0	0
Total	**8**	**100.0**

Source: Response data

As is evident in Table 1, all (100%) the companies from which the respondents were surveyed were foreign. There are no locally owned companies or joint ventures within the industry in Nairobi.

4.2.2 Number of staff

The numbers of staff in an organization usually reveals the size of operations within the organization and differ from organization to organization .The respondents were asked to indicate the number of staff in their organization s which revealed the results shown in Table 2.

Table 2: Number of Staff

Number of staff	**Frequency**	**Percentage**
501-1000	3	37.5
1001-2000	4	50.0
2001-3000	1	12.5
Total	**8**	**100.0**

Source: Response data

Most of the firms (50%) operate on a medium and small scale basis with only 1 company having over 2000 employees. 37.5% of the respondents had staff between 5001 and 1000, 50% had staff between 1001 and 2000, while only 12.5% recorded staff between 2001 and 3000.

4.2.3 Existence of a mission statement

The respondents were asked to indicate if there existed a mission statement in their organizations. This was aimed at establishing whether the firms engaged in any kind of long term planning and what the firms stood for. This is crucial for firms as all employees should know what they aim at, giving sense of direction to the firm owners, employees as well as other stakeholders.

The results are shown in Table 3.

Table 3: Existence of a mission statement

Existence	Frequency	Percentage
Yes	8	100.0
No	0	0
Total	**8**	**100.0**

Source: Response data

100% of the respondents recorded the existence of mission statements in place.

4.3 Strategic planning by the organizations

This section intended to gather information about different aspects of strategic planning in the organizations. The aim was to establish whether any strategic planning was undertaken by the organizations under study.

4.3.1 Existence of strategic objectives

The respondents were asked to indicate if there existed any form of strategic objectives within their organizations. The results are shown in Table 4.

Table 4: Existence of strategic objectives

Existence	Frequency	Percentage
Yes	8	100.0
No	0	0
Total	**8**	**100.0**

Source: Response data

All the respondents indicated that their companies had strategic objectives. This represented 100% of the respondents.

4.3.2 Levels of strategic objectives

The levels at which strategic objectives are coined in organizations differ from firm to firm and hence the respondents were asked to indicate the levels at which strategic objectives in their organization were made. The results obtained are shown in Table 5.

Table 5: Levels of strategic objectives

Level	Frequency	Percentage
Top level Management	8	100.0
Board level	0	0
Middle level management	0	0
Total	**8**	**100.0**

Source: Response data

100% of the respondents indicated that their strategic objectives were coined by the top level management. Board and middle level management have no role in strategic objectives setting for the firms as results show in Table 5.

4.3.3 Carrying out of strategic planning

Some organizations carry out strategic planning while others do not. Strategic plans exist in firms to provide a guide for long and short term realization of set objectives. The respondents were therefore asked to indicate whether their organizations carried out strategic planning or not. The results are as shown in Table 6.

Table 6: Carrying out of long term strategic planning by the firms

Yes / No	Frequency	Percentage
Yes	8	100.0
No	0	0
Total	**8**	**100.0**

Source: Response data

100% of the respondents indicated that their organizations carried out strategic planning. Again this is in line with the results in Table 5 which showed that strategic decisions are taken at the top management level and cascaded down through the business and functional units of the organizations.

4.3.4 Existence of a strategic plan

The respondents were asked to indicate if there existed a strategic plan for their organizations. Results obtained are shown in Table 7.

Table 7: Existence of a strategic plan

Yes/ No	Frequency	Percentage
Yes	8	100.0
No	0	0
Total	**8**	**100.0**

Source: Response data

Strategic plans spell out the direction in which the company will move over a period of tie and how they will get there. 100% of the respondents indicated that there existed a strategic plan in their companies.

4.3.5 Coverage period of the strategic plans

The respondents were asked to indicate the coverage period of the strategic plan in their organizations.

Table 8: Coverage period of the strategic plans

Time Period	Frequency	Percentage
1-3 Years	4	50
3-5 Years	2	25
Over 5 Years	2	25
Total	**8**	**100.0**

Source: Response data

Strategic plans usually cover short, medium or long term periods. Most firms (50%) in this study seem to prefer short term plans of between 1 and 3 years. 2 of the 4 firms prefer

strategic plans of 3 – 5 years representing 25% of the respondents, while the other 2 firms had strategic plans spanning 5 years and above, this was also represented by 25% of the respondents.

4.3.6 Regular review of the strategic plans

Strategic plans should be regularly reviewed (at agreed intervals) by organizations to ensure that they are aligned to the original plans and also to take care of the changes in the operating environment of the firm. This usually ensures that the firms do not lose the initial objectives they had set out to achieve. The respondents were asked to indicate whether their organizations regularly reviewed their strategic plans and the results are shown in Table 9.

Table 9: Regular review of the strategic plans

Yes/ No	Frequency	Percentage
Yes	8	100.0
No	0	0
Total	**8**	**100.0**

Source: Response data

According to the results in Table 9, all the respondents indicated that their companies had a regular review of the strategic plans. This represented 100% of the respondents.

4.3.9 Types of plans developed by the firms

Organizations develop different types of plans that will help the firm in achieving set goals, objectives and targets depending on their line of business and the environment in which they operate. The respondents were asked to indicate the type of plans developed by their organizations and the results are as shown in Table 10.

Table 10: Types of plans developed by the firms

Type of plan	Frequency	Percentage
Financial	4	50.0
Operational	4	50.0
Total	**8**	**100.0**

Source: Response data

This represented 50% of the respondents by each category (financial and operational) and confirmed that different firms have different strategies even within the same industry and even location. Some firms see financial plans as more key when it comes to achieving their objectives, others are operationally oriented.

4.4 Factors influencing long-term performance of firms

Long-term performance of organizations is influenced by different factors which are both internal and external to the organization. The purpose of this analysis was to establish the relative importance of each of the macro-environmental, micro-environmental, industry related, competitive and global related factors influencing the long-term performance of the firms. The results revealed both the most and the least dominant factors and the degree of variability in their influence on the long-term performance of the firms.

4.4.1 Macro-environmental factors

There are different macro-environmental factors that influence the long-term performance of organizations and the respondents were asked to indicate the extent to which the following macro-environmental influenced the long-term performance of their firms. The data collected were analyzed and results shown in Table 11.

Table 11.Macro-environmental factors

Factor	Mean	Std. Deviation
Economic factors	4.3333	1.03280
Political-legal factors	3.5000	1.97484
Fiscal factors	3.1667	0.98319
Technological developments	3.3333	0.81650
Diffusion of the technological know-how	3.8333	0.75277
Social-cultural factors	2.8333	1.16905
Technological advancements	3.5000	1.04881
Regulatory influences and government policy changes	4.3333	1.21106
High interest rate	3.0000	1.26491
Procedures ate the Kenya's principal port	4.5000	0.83666
Unreliability in power supply	4.5000	0.54772
Poor state of Kenya's infrastructure	4.3333	0.51640
Customs regulations	4.5000	1.22474
High cost of power and water	4.6667	0.81650
High cost of telecommunication	4.3333	0.51640
Insecurity in the country	4.1667	1.16905
Foreign currency exchange fluctuations	4.6667	0.51640
Unfamiliarity with the local procedures	3.6667	1.36626
VAT requirements	2.3333	1.21106
Visa processing	4.3333	1.21106

Source: Response data

Table 11 shows that high cost of power and water and foreign exchange fluctuations were the most influential macro-environmental factors that influenced the companies' long-term performance. Socio-cultural factors and Value Added Tax (VAT) requirements had the least effect on long –term performance of the firms in the study. Much as the firms are all foreign –owned, it seems there is a good mix between the locals and the foreigners and the tax

element did not come into play given that the area of operation is not targeted as a tax zone by the government.

There was no significant difference (SD<1) on the influence of fiscal factors, technological developments, diffusion of technological know how, procedures at the Kenya's principal port, unreliability in power supply, poor state of Kenya's infrastructure, high cost of power and water, high cost of telecommunication and foreign exchange fluctuations among the respondents. In all the other factors there was significant difference in the responses (SD>1).

4.4.2 Micro-environmental factors

Various micro-environmental factors influence the long-term performance of organizations and the respondents were asked to indicate the extent to which the different micro-environmental influenced the long-term performance of their firms. The data obtained was analysed and results are as shown in Table 12.

Table 12: Micro-environmental factors

Factor	Mean	Std. Deviation
Company's systems	3.3333	1.21106
Company structure	3.8333	1.47196
Skills, staff and management style	4.0000	0.89443
Firm's installed capacity	3.8333	1.16905
Firm's location	3.8333	1.47196
Energy utilization	4.1667	0.75277
Low labour productivity and inefficiency	4.5000	0.83666
Bureaucracy	4.1667	1.16905

Source: Response data

Low labour productivity and inefficiency was rated as the most influential micro-environmental factor that influences the companies' long-term performance. This means expatriates brought in to impart their knowledge on locals are not doing a good job or the locals do not have the capacity to learn quickly and increase the productivity of the firms.

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The least influential micro-environmental factor was company's systems. From the table, it could thus be inferred that the companies do not have complex systems and structures. There was no significant difference (SD<1) on the influence of skills, staff and management style and low labour productivity and inefficiency on the companies. All the other factors had significant difference (SD>1) on their influence on the companies long-term performance.

4.4.3 Industry related factors

Long-term performance of organizations is also influenced by different industry-related factors and so the respondents were asked to indicate the extent to which different industry-related factors influenced the long-term performance of their firms. Data obtained were analyzed and are shown in Table 13.

Table 13: Industry related factors

Factor	Mean	Std. Deviation
Trends in the market size and growth	3.8333	0.98319
Development or trends in prices	4.1667	0.75277
Trends in the purchasing patterns	3.8333	0.98319
New entrants in the industry	3.3333	1.50555
Barriers to new entrants	3.3333	1.03280
Mergers and acquisitions in the industry	2.6667	1.03280
Long term industry growth rate	3.6667	0.81650
Product innovation in the industry	4.0000	0.89443
Overall changes in cost and efficiency in the industry	4.3333	1.21106
Wage rates for unskilled workers	4.5000	0.83666
Availability of skilled labour	4.6667	0.81650
Trade union involvement	4.1667	1.16905
Unavailability of serviced industrial land	3.8333	0.75277
Room for expansion	4.0000	0.89443
Non-availability of inputs locally	4.6667	0.51640

Source: Response data

Among the industry related factors, availability of skilled labour and non availability of inputs locally were the most influential. This implies that the huge workforce of thousands is menial workers who do not have the requisite skills for the industry. More specialized training is required to help the firms meet this crucial need for the future. Unavailability of inputs locally means the firms have to source from without making them uncompetitive compared to countries where inputs are locally available. Cotton which is the major raw material in the industry's operations should be grown and processed locally. This is an opportunity for the government to create value and jobs at the same time.

The least influential industry related factor was mergers and acquisitions in the industry. As mentioned earlier, these firms do not seem to enjoy scale economies with their limited operation outfits, may be they should think of exploring joint ventures or engaging in mergers or acquisitions. This would greatly improve their ability to compete with the big players in the industry both within the country and without. If this was the case, we would not have seen so many of them (6) closed so far. The degree of influence differed significantly (Sd>1) for new entrants in the industry, barriers to new entrants, mergers and acquisitions in the industry, overall changes in cost and efficiency in the industry and trade union involvement. All the other factors reported no significant difference (SD<1) on the degree of their influence.

4.4.4 Competitive environment factors

Competitive factors are influential in determining the long-term performance of organizations. A firm's competitiveness will directly affect its existence as it does not exist in a vacuum and must therefore position itself to tackle competition as well as other forces that could hinder its existence and progress. The respondents were asked to indicate the extent to which different competitive factors influenced the long-term performance of their organizations and the results analysed and presented in Table 14.

Table 14: Competitive environment factors

Factor	Mean	Std. Deviation
Marketing strategies of competitors	4.3333	1.03280
Sources of raw materials	4.8333	0.40825
Market innovation practices	4.1667	0.75277
Changes in consumer preferences	4.1667	0.75277

Source: Response data

From the results in Table 14, it is clear that sources of raw materials stands out as the most influential. This confirms the importance of availability of raw materials as it also came out in Table 13. Effort should be directed at ensuring raw materials are easily accessible and available, this will improve the firms' competitive position in the market by preserving their foreign exchange used to purchase raw materials abroad, money that could be used for other investments like expansion. The degree of influence did not differ significantly (SD<1) for all the factors except marketing strategies of competitors with (SD>1) differing significantly with the rest.

4.4.5 Global related factors

With the world increasingly becoming a global village due to increased flow of information and internet connectivity, firms have to brace themselves to operate with a global outlook to issues. International businesses have broken and continue to break barriers related to international trade by joining world trade associations through local and regional affiliates. There are different global-related factors that influence the long-term performance of organizations and the respondents were asked to indicate the extent to which the following global-related factors influenced the long-term performance of their firms. Results obtained were analysed and presented in Table 15.

Table 15: Global related factors

Factor	Mean	Std. Deviation
Activities of global trade associations	4.3333	0.81650
Globalization in the industry	4.6667	0.81650
USA import requirements	4.0000	1.26491
Uncertainty in the extension of AGOA	3.8333	1.60208
High cost of production and international competition	4.8333	0.40825
Various delays (container delivery, raw materials)	4.8333	0.40825
Removal of textile quota under world trade organization	4.8333	0.40825
Global trends	3.8333	1.47196
Logistics-transit times to the USA	4.1667	0.75277

Source: Response data

Various delays in container delivery and raw materials, removal of textile quota under world trade organization, high cost of production and international competition were the most influential global factors. Uncertainty in the extension of AGOA pact came out as the global related factor with the least influence on the firms. There was significant difference (SD>1) on the influence of USA import requirements, uncertainty in the extension of AGOA and global trends. However all the other factors reported no significant difference (SD<1) on their influence on the long-term performance of the firms.

CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 Introduction

This chapter is divided into four major sections. The first section presents the summary, discussions and conclusions of the study. This is followed by sections three and four on recommendations for further research as well as recommendations for policy and practice respectively.

5.2 Summary, Discussions and Conclusions

This study had one primary objective that is to establish the factors that influence long-term performance of EPZ- AGOA textile exporting firms located within Nairobi. The study was aimed at determining the factors that influence the long term performance of EPZ-AGOA textile firms in Kenya. The findings revealed that the long-term performance of these firms was mostly influenced by competitive and global related factors whereas industry related factors had the least influence and thereby pointing to where more focus should be directed by players in the industry and the government alike.

External changes in the Kenyan economy and the world at large have contributed to the intense competition by firms in the country and especially in the textile industry. There continues to be stiff competition offered by world economic powerhouses including china, India and South American countries like Brazil. In Africa, Kenyan firms have to fend off competition from Mauritius and Zambia. This state of events in Kenya has been occasioned by liberalization of the economy in the 1990s which led to the collapse of indigenous textile firms and virtually wiped out cotton growing in the country side, coupled with the emergence of a more discerning consumer market. Due to the existence of the huge American market, the AGOA initiative has become instrumental in driving textile exports from Kenya which would otherwise be ante importer of finished textiles including used clothing. It is therefore crucial that Kenya maintains an enabling environment to spur the growth of this industry.

This study was therefore conducted to establish the factors that influence the long-term performance of the textile firms under the EPZ-AGOA arrangement. The study revealed that all the firms were foreign owned, had a mission statement, conducted strategic planning, had strategic objectives and conducted regular review of their strategic plans. Half of the

organizations had between 1000-2000 employees a pointer to the fact that this is a labour intensive industry .The coverage period of their strategic plans was spread across the different categories, with the short and medium planning period of 1-3 years being the most popular among the firms. Firms within the sector shy away from longer strategic plans. Most of the firms reported having adequate resources to ensure the completion of their strategic plans while at the same time their strategic plans being flexible to the changing environment.

It is good to learn that the firms are well aware of the changes occurring within their immediate environments both internal and external and work to align their processes with the changes. This is a good showing considering the fact these are crucial for implementation and post implementation phases of the strategic planning process. The study also revealed that the most dominant factors influencing long-term performance of the organizations were various delays delivery and raw materials, removal of textile quota under world trade organization, high cost of production, international competition, and high cost of power, foreign exchange fluctuations, sources of materials, globalization in the industry, availability of skilled labour and non availability of inputs locally. The least influencing factors on long-term performance were, VAT requirements, barriers to new entrants, mergers and acquisitions in the industry, technological developments, social-cultural factors, new entrants in the industry, and company's' systems. This study has therefore established that organizations operate within an environment which dictates how they operate and different environmental factors have different influences on these organizations.

McCormick (2003) and colleagues found that the garment and textile industries in Kenya are in doldrums. This decline he said is mainly due to Structural Adjustment Programmes (SAPs) of the 1990s and subsequent liberalization. The firms operating under AGOA are not out of the woods yet, with the constant threat of the cessation of the Act. Governments of developing countries need to carefully weigh proposals from institutions like the World Bank and the International Monetary Fund before implementing wholesale the content proposals, as this is a classic example of how a once vibrant sector of the economy was brought down to its knees and the future dos not look too bright either.

The other notable point in this study is that more and more firms seem to be closing down before their third birthdays. This is in line with local statistics which show that 7 out of ten new businesses close shop in Kenya within 3 years of operations. This is a worrying trend

that needs to be reversed with utmost urgency. These firms should not be allowed to go the direction the indigenous textile firms went; closing down, when they can explore other avenues of staying afloat like mergers and acquisitions. We have seen from the data analysed that these firms are purely foreign owned and have never engaged in any kind of measures to enable them stay in business. Probably this would be a good opportunity for study to find out why there are no mergers and acquisitions within the industry.

Ndinya (2000) undertook an empirical evaluation of the factors influencing investment in Kenya and found that political stability; availability of power, cheap abundant labour, and ready market; quality of life; and good inland transport were important in investment decisions. This study has also confirmed that the foregoing factors are equally important for long term performance as well. This sends a strong signal to policy makers on what should be high on the priority list if they are willing to remedy the exodus of direct foreign investors into Kenya. As earlier mentioned within the findings, 6 firms have closed already and some could be following suit, the trade and industry ministry must come out strongly and ensure these firms operate in an enabling environment and do not leave the country for countries competing for foreign investment in the sector such as Zambia and Mauritius. Hapisu (2003) researched on the relationship between strategic planning and competitive advantage in the EPZs in Kenya. This study was also interested in strategy, and its implementation within EPZs, however, the findings of this study on factors influencing long term performance in the textile sector will go a long way in providing much needed information to the investors currently in the industry as well as potential investors.

5.3 Limitations of the Study

The study was inhibited in a number of ways. First, some of the respondents were not available and some of those available failed to return the questionnaires, accounting for 22% failure rate as far as receiving filled questionnaires was concerned. This was a limitation as the sample size was small and any unfilled questionnaire further compromised the data quality. Out of the 18 firms initially listed for the study, 30% of them were found to have closed as at the time of data collection, this further reduced the population under study.

Given that the sample size of 18 was quite small and manageable by census survey, the fact that this was reduced to only 12, out of which only 8 successfully completed the questionnaires further denied the study much needed data. Some of the firms were

reluctant to provide financial performance figures over the years requested making it difficult to compare the findings to the theories advanced in the literature review. In some instances the respondents viewed the exercise with suspicion despite having clearly briefed them on the bearing of the study on their firms and that the study was purely for academic purposes. Since all the firms are foreign owned, the senior managers thought this was an exercise to by the authorities to validate some standpoints and use the same against them especially when it came to financial figures and the issue of staff unrest. This meant continuous follow up leading to elongated periods of the study.

5.4 Recommendations for further Research

From the field, it was noticed that more than 6 firms listed for the study had closed in the last three years, representing 30% of the firms located in Nairobi. There exists an opportunity to study the causes of closure for these firms. There is also an opportunity for further research especially on factors that influence the long-term performance of other textile firms other than the EPZ- AGOA firms within Nairobi or the country as a whole, and with East Africa moving towards a regional trading block, it would be seen as a bigger opportunity to also carry out a study for the region as well.The study also revealed that there are no mergers or acquisitions within the industry so far, yet many of the firms have closed shop. It would be worthwhile investigating why the firms do not choose this as a viable option in keeping the businesses afloat and ensuring they access bigger markets and thus enjoy scale economies in their operations. These would be very useful to firms looking to invest in the region and even to governments in terms of policy frameworks for enabling environment in which businesses can thrive and drive the economies.

5.5 Recommendations for Policy and Practice

Economic development is not an event but a continuous process which should be approached in a holistic way. The government and the private sector should work in tandem to ensure that realistic targets are set and each player supports the other to attain the objectives collectively.

Findings in this study can be used for instance by economic planners to see what sort of infrastructure is required to sustain investments in the EPZ as well as other areas of economic interest. As revealed by the study, firms are already closing down and possibly relocating to other "friendlier" destinations. A concerted effort is required in order to stem

this exodus by tackling the inherent problems affecting Direct Foreign Investment as well as encourage home grown investments and solutions.

This study is important to the managements of the EPZ companies in the textile industry in terms of laying the base for their long-term strategic repositioning in order to remain not only competitive but also ensure their long-term survival. The government regulatory and policy formulating bodies like the Export Processing Zones Authority (EPZA) and Trade Ministry can also use the results obtained from this study to formulate policies to govern Export Processing Zones.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Ogaye A. Otieno,
C/o University of Nairobi,
Lower Kabete Campus,
P.O. Box 30197,
Nairobi.

August 2006

Dear Esteemed Respondent,

RE: COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, School of Business. In order to fulfill the degree requirements, I am undertaking a management research project on "Factors influencing long-term performance of EPZ-AGOA textile exporting firms within Nairobi" You have been selected to form part of this study. This is kindly to request you to assist me collect the data by taking time off your busy schedule and fill out the accompanying questionnaire which I kindly request you to return by way of email through the address: odhaji@gmail.com.

The information you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information you give will be treated with strict confidence. At no time will you or your organization's name appear in my report. A copy of the final paper will be availed to you upon request. My success and the success of this study depend on the most accurate data that you will kindly provide.

Please let me know if anymore information or help is needed.

Your co-operation will be highly appreciated and thank you in advance.

Yours faithfully,

Ogaye Austin Otieno	**Dr. Martin Ogutu**
MBA student	**Senior Lecturer (Supervisor)**
University of Nairobi	**University of Nairobi**

APPENDIX II: QUESTIONNAIRE

Section I: General Information

1. Would you kindly give the official name of your organization? ____
2. In which year was your organization established/incorporated? ____
3. Using the categories below, please indicate the ownership of your company (please tick one)

   Locally owned ( )

   Foreign owned ( )

   Joint foreign and local ownership ( )
4. Using the categories below, please indicate the number of staff employed by your company

Less than 500 ( ) Between 501-1000 ( )

Between 1001-2000 ( ) Between 2001-3000 ( )

More than 3001 ( )

5. In which year did your company get registered under the AGOA provisions? ____

Section II: Strategic Planning

	Yes	No
6. Does your firm have a mission statement	( )	( )
7. Does your firm have strategic objectives?	( )	( )

8. If yes in 7 above, at what level(s) are they set

   Board ( )

   Top management ( )

   Middle management ( )

   If others, please specify in the space provided ____ ____
9. Does your firm carry out long-term strategic planning? Yes/No ( ) ( )
10. Do you have a strategic plan in your company? Yes/No ( ) ( )
11. If yes in 7 above, what time period does it cover?(Tick)

1-3 Yrs	( )	Over 5 Yrs	( )
3-5Ys	( )		

12. Is the strategic plan for your organization regularly reviewed to reflect changes within the operating environment? Yes/No ( ) ( )

13. To what extent are the resources required for strategic planning adequate in your company to ensure that strategic planning is completed satisfactorily? (Use a 5 point scale where 1=Not at all, 2= To a little extent, 3=To some extent, 4=, and 5= To a great extent)

5	4	3	2	1
( )	( )	( )	( )	( )

14. To what extent would you say that your strategic plans are flexible enough to allow for adjustment in line with changes in the environment? (Use a 5 point scale where1=Not at all, 2= To a little extent, 3=To a fairly large extent, 4= To a large extent, and 5= To a very large extent)

5	4	3	2	1
( )	( )	( )	( )	( )

15. What type of plans does your firm develop?

Financial	( )
Operational	( )
Others (specify)	( )

Section III: Factors influencing Long-Term Performance of Firms

Following are factors (both internal and external) that influence the long-term performance of your firm. In a scale of 1-5 (where 1=Not at all, 2= To a little extent, 3=To a fairly large extent, 4= To a large extent, and 5= To a Very large extent) indicate the extent to which you consider each as influencing long-term performance of your business?

		5	4	3	2	1
i.	Economic factors	( )	( )	( )	( )	( )
ii.	Political-legal factors	( )	( )	( )	( )	( )
iii.	Fiscal factors	( )	( )	( )	( )	( )
iv.	Technological developments	( )	( )	( )	( )	( )
v.	Diffusion of the technological know-how	( )	( )	( )	( )	( )
vi.	Social-cultural factors	( )	( )	( )	( )	( )
vii.	Company's systems	( )	( )	( )	( )	( )

viii. Company's structure ( ) ( ) ( ) ( ) ( )

ix. Skills, staff, and management style ( ) ( ) ( ) ( ) ( )

x. Trends in market size and growth ( ) ( ) ( ) ( ) ( )

xi. Developments or trends in prices ( ) ( ) ( ) ( ) ( )

xii. Trends in the purchasing patterns ( ) ( ) ( ) ( ) ( )

xiii. Technological advancements ( ) ( ) ( ) ( ) ( )

xiv. Firm's installed capacity ( ) ( ) ( ) ( ) ( )

xv. Firm's location ( ) ( ) ( ) ( ) ( )

xvi. Marketing strategies of competitors ( ) ( ) ( ) ( ) ( )

xvii. New entrants in the industry ( ) ( ) ( ) ( ) ( )

xviii. Barriers to new entrants ( ) ( ) ( ) ( ) ( )

xix. Mergers and acquisitions in the industry ( ) ( ) ( ) ( ) ( )

xx. Activities of global trade associations ( ) ( ) ( ) ( ) ( )

xxi. Sources of raw materials ( ) ( ) ( ) ( ) ( )

xxii. Energy utilization ( ) ( ) ( ) ( ) ( )

xxiii. Long-term industry growth rate ( ) ( ) ( ) ( ) ( )

xxiv. Product innovation in the industry ( ) ( ) ( ) ( ) ( )

xxv. Market innovation practices ( ) ( ) ( ) ( ) ( )

xxvi. Increasing globalization of the industry ( ) ( ) ( ) ( ) ( )

xxvii. Overall changes in cost and efficiency in the industry ( ) ( ) ( ) ( ) ( )

xxviii. Changes in consumer preferences ( ) ( ) ( ) ( ) ( )

xxix. Regulatory influences and government policy changes ( ) ( ) ( ) ( ) ( )

xxx. Wage rates for unskilled workers ( ) ( ) ( ) ( ) ( )

xxxi. Availability of skilled labour ( ) ( ) ( ) ( ) ( )

xxxii. Trade union involvement ( ) ( ) ( ) ( ) ( )

xxxiii. High interest rates ( ) ( ) ( ) ( ) ( )

xxxiv. Procedures at Mombasa port ( ) ( ) ( ) ( ) ( )

xxxv. Kenya's export taxes ( ) ( ) ( ) ( ) ( )

xxxvi. USA import requirements ( ) ( ) ( ) ( ) ( )

xxxvii. Uncertainty in the extension of AGOA ( ) ( ) ( ) ( ) ( )

xxxviii. Unreliability in power supply ( ) ( ) ( ) ( ) ( )

xxxix. Poor state of Kenyan infrastructure ( ) ( ) ( ) ( ) ( )

xl. Custom regulations ( ) ( ) ( ) ( ) ( )

xli. High costs of production and international Competition ( ) ( ) ( ) ( ) ( )

xlii. Unavailability of serviced industrial land ( ) ( ) ( ) ( ) ( )

xliii. Room for expansion ( ) ( ) ( ) ( ) ( )

xliv. Low labour productivity and inefficiency ( ) ( ) ( ) ( ) ( )

xlv. High cost of power and water ( ) ( ) ( ) ( ) ( )

xlvi. Various delays (container delivery, Raw material arrival) ( ) ( ) ( ) ( ) ( )

xlvii. High costs of telecommunication ( ) ( ) ( ) ( ) ( )

xlviii. Non-availability of inputs locally ( ) ( ) ( ) ( ) ( )

xlix. Removal of Textile Quota under World Trade Organization ( ) ( ) ( ) ( ) ( )

l. Shortage of orders ( ) ( ) ( ) ( ) ( )

li. Bureaucracy ( ) ( ) ( ) ( ) ( )

lii. Labour unrests ( ) ( ) ( ) ( ) ( )

liii. Insecurity in the country ( ) ( ) ( ) ( ) ( )

liv. Currency /foreign exchange fluctuations ( ) ( ) ( ) ( ) ( )

lv. Global fashion trends ( ) ( ) ( ) ( ) ( )

lvi. Logistics – transit times to the USA ( ) ( ) ( ) ( ) ( )

lvii. Unfamiliarity with local procedures ( ) ( ) ( ) ( ) ( )

lviii. VAT requirements ( ) ( ) ( ) ( ) ( )

lix. Visa processing requirements ( ) ( ) ( ) ( ) ( )

Section IV: Data Collection Form

Long term performance is to a large extent perceived to be influenced by gross sales turnover, net profits that a firm generates depending on the prevailing business environmental circumstances as well as the firm's installed production capacity. Firms operating under AGOA are further influenced by the overall export quota that Kenya is allocated. You are therefore kindly requested to provide information relating to the above factors in the table below for purposes of determining the magnitude of their influence on long term firm performance.

NB: ALL data provided will be held in confidence and ONLY used for the purposes of this study.

Performance Indicator	**Year 2001**	**Year 2002**	**Year 2003**	**Year 2004**	**Year 2005**
Gross Sales Turnover (KSH)					
Net Profits (KSH)					
Market Share (%)					
Installed Capacity (Volume)					
The AGOA quota allocation to Kenya					

Thank you very much for your time and cooperation.

Appendix III: Listed EPZ- AGOA Firms in Nairobi as at May 2006.

1. Appex Apparels EPZ Ltd
2. Atex EPZ Ltd
3. Baraka Apparels
4. Faimu Enterprise
5. Global Apparel EPZ Ltd
6. J.A.R EPZ Ltd
7. Kentex Apparels EPZ Ltd
8. Kikoy Company Ltd
9. Mirage Fashionwear EPZ
10. MRC Nairobi EPZ Ltd
11. Protex (K) EPZ Ltd
12. Rising Sun Kenya EPZ Ltd
13. Rolex Garments EPZ Ltd
14. Silvestrar Manufacturers LTD
15. Tinga Tinga Clothing Factory
16. Upan Wasana EPZ Ltd
17. Union Apparels EPZ Ltd
18. YooHan Enterprises

List provided courtesy of the Ministry of Trade and Industry

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