TRADE BETWEEN ZAMBIA AND KENYA: AN INVESTIGATION INTO FACTORS THAT MAKE THE KENYAN EDIBLE OIL INDUSTRY COMPETITIVE.

By

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DECLARATION.

I declare that this research paper is my original work and has not been presented in any other university for examination.

Signed ..... Date 27/11/2002

HENRY EUSEBIUS KAPACHA.

This research paper has been submitted for Examination with my approval as a University Supervisor.

Signed ..... Date 27/11/2002

DR JOHN YABS

DEDICATIONS.

I thank god for being with me through and through. May his name be glorified for ever and ever, Amen.

I take this opportunity also to dedicate this research to my parents, my late mother Mrs. Odila Kapacha and my living father Mr. Leonard Kapacha. Without them providing an enabling environment, I would probably not have progressed much in life. At the time of writing this project, I was a Zambian Diplomat based in Nairobi, Kenya. Included are also my brothers and sisters, Sabina (late), Joseph, Emmanuel, Anna, Remmy, Leonard and Joan.

I wish also to extend the dedication to the Zambian Government for appointing me into Foreign Service, a period during which, while working I was allowed to pursue my studies. It was not easy to reconcile work and study time.

The dedication also goes to Mr. Sebestian Kopulande, Managing Director Setrec (Zambia) Limited, Mr. Paison Mwanza, Administrative Manager, in the office of the Registrar of Companies, Dr Austin Sichinga, Permanent Secretary Ministry of Energy, Zambia and Mr M.C.J Kunkuta, Registrar of companies, Ministry of Commerce, Trade and Industry, Lusaka, Zambia. Finally, but not the least, my dedications go to my only and only special friend, Ruth Wairimu Githo, for her extreme and rare qualities of understanding and patience. May god bless them all.

ACKNOWLEDGEMENT.

At the time I was doing this study, I was a First Secretary in charge of trade at the Zambia High Commission in Nairobi, Kenya. It was during this time, that the Zambian edible oil sector was flooded with edible oil products from Kenya, causing concern about the survival of the local industry in Zambia. As a trade officer, one of my duties was to monitor and provide advise to Government on issues such as this one. Hence, I was involved in a Government sponsored verification mission to establish the rules of origin of Kenyan edible oil products. As a member of the Zambian delegation, I visited three edible oil refineries namely, Bidco in Thika, Kapa in Nairobi and Pwani in Mombasa. It is not the objective of this study to divulge the findings. After the verification mission, I got interested to know the factors that make the Kenyan firms competitive in this sector. It is out of this background therefore, that I chose to undertake a study in this area. Bearing in mind my previous involvement in search of a solution to the Zambian problem, I thought I would receive little interest from companies exporting to Zambia if I ventured into this topic to establish factors that give them an advantage over Zambian firms. Indeed, I was correct, the subject was controversial. However, from the goodwill cultivated and mutual trust during my first visits, firms cooperated very well and provided me with the necessary data about themselves.

Special thanks therefore, go to my supervisor Dr John Yabs. My supervisor was not only too patient who at times waited for me for long minutes, despite his busy schedule, but was also a knowledgeable person who understood the subject, and provided useful insights, guidance and valuable comments that helped to shape this study.

Iam very grateful to the two Kenyan companies that responded to the questionnaires. Specifically, I thank Mr. Nitin Shah, Managing Director of KAPA Industries in Nairobi. My special thanks also go to Mr. Raju Malde, Managing Director of PWANI industries in Mombasa. Not only did Mr. Malde respond promptly to the questionnaire, but engaged into a good discussion and provided useful comments and contributions on this project. Without the trust, understanding and cooperation of both companies, the study would have been a flop. May god bless them.

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ABSTRACT.

The launching of the COMESA Free Trade Area on 31st October in 2000, at the COMESA Summit of Heads of State and Government marked a step further towards the long journey to establish a COMESA common market. Ideally, the Free Trade area was launched to promote regional integration through trade and investment. Nine Member states became pioneers. These are Djibouti, Egypt, Kenya, Madagascar, Malawi Mauritius, Sudan, Zambia and Zimbabwe. Some countries that were not ready to participate in the free trade area arrangement pledged to become members later.

Following this development exports of certain products are now being exported. For instance, Zambia started exporting sugar to Kenya. On the other hand, Kenyan firms started exporting edible oil products to Zambia. In both countries, there have been concerns about the survival of the local industries, the edible sector in Zambia for instance and the sugar industry in case of Kenya. In both countries there have been calls from industry players to ban imports. Both Governments have undertaken verification missions in these two sectors to find a solution to problems facing their local industries.

It was out of this background, that a study into factors that make the Kenyan edible oil firms competitive conceived. This study used the ''diamond theory'' model to find out these factors.

The findings revealed the following factors as the sources of competitiveness.

(i)**Technological capacity resulting in economies of scale,**

(ii) **Kenya's geographical location leading to lower transport costs,**

(ii) **Competition and rivalry within industry resulting in new investments,**

(iv) **Management Practice leading to efficient decision making,**.

(v) **Macroeconomic environment resulting in supporting the industry.**

The three Kenyan firms in this sector are likely to continue enjoying the competitive advantage over Zambian firms, if the latter do not upgrade. However, the solution to the problem of the local industry in Zambia does not lie in protective measures, but rather in upgrading the industry, through investment in new technology, improved macroeconomic conditions, promotion of competition and promoting the use of local raw materials. Firms must also become outward looking. Kenyan firms are exporting to countries as far as Congo DR, and yet Zambia, a country that shares a border with this country does not do so.

In carrying out the study and arriving at the conclusion, survey method using questionnaires was used to collect data on the Kenyan edible sector, while content analysis approach was employed to interpret data collected. Considering, that two studies have been made in this area in on two different topics (the rules of origin and factors that determine competitiveness), it would be interesting to conduct a study on whether the ''diamond'' exists in Zambia for Zambian firms to develop their competitiveness.

It will also be interesting to study whether production costs or added value in form of processing is the best method conferring to the rules of origin. Of particular interest would be, supposing a firm does not meet the 35 percent added value requirement because of efficient production, and that all the raw materials are imported, how will a situation like this be treated?

CHAPTER ONE

1.0 Introduction.

1.1 Background

Kenya and Zambia are two independent countries of Eastern and Southern African Sub-region. The two countries have established diplomatic ties and have signed protocols of trade and investment under the Common Market for Eastern and Southern Africa organization agreement established in 1994. To consolidate trade relations, both countries became members of the Common Market for Eastern and Southern Africa Free Trade Area in 2000, an arrangement under which tariffs on trade were removed. Trade between the two countries has been going on for many years with the pattern varying. At times, the balance of trade has been in favour of Zambia and vice versa (Source GoK Economic Report 2001, EBZ Annual Report 2001). However, since 2000, when the free trade area was launched, a new pattern in the composition of trade has emerged. There has been an influx of Kenyan edible oil exports to Zambia. Uncontrolled oil imports have been a major survival concern to local players. Factories are said to be threatened with imminent closure with consequences likely to extend to related industries. Oil exports have risen from $650,000 in 2000 to $1.2m in 2001 before reaching $1.8m in June 2002. (source: Government of Kenya, June 2002). It is of interest to study the factors that have made Kenyan edible oil competitive on the Zambian market and to look for solutions to impending problems to be encountered.

This study cannot be fully understood without going into the background and the history of international trade and competitiveness. A review, though in a brief form, of the genesis of international trade and international business as well as theories of international trade is given.

International trade is the exchange of goods and services among residents of different countries. It has been the principal mechanism linking national economies(World Investment Report 1996). Countries engage in international trade for a variety of reasons Economic theory identifies three benefits of trade.

(1) It allows specialization according to comparative advantage. This means that countries tend to specialize in the production of goods and services in which they have an advantage, e,g abundant natural resources, plentiful skills etc,

(2) It results in better use of economies of scale. This refers to the relationship of per unit cost to changes in labour and capital employed. According to this law unit costs change according, to changes in labour and capital employed. International trade leads to mass production and tends to lower per unit costs.

(3) It increases competition. This means that international trade shapes up industry through rivalry.

There are other reasons for engaging in international trade. Exports in particular, are a means to generate the foreign exchange required to finance general development. Furthermore, international trade is a means of establishing economic relations between countries. International trade, not only reduces the country's vulnerability to external shocks and commercial risks arising from low exports, but also reduces the export revenue instability (Jebuni et al 1985).

This means that international trade through export generation acts as an absorber in case of negative external factors, such as fluctuations in prices of commodities, financial crises on the international market and so forth. The result of holding on to funds by the IMF in the case of Kenya has been mitigated by Kenya's involvement in international trade.

It has become central to growth and development and countries that embrace international trade develop faster. According to Dollar (1992), a large number of cross-country empirical studies have documented a strong relationship between trade and growth. For instance, East Asia has attained faster growth because of international trade, it is also the case with developed countries, and the opposite with developing countries.

1.2 Statement of the problem.

On 31st October 2000, the Common Market for Eastern and Southern African Free Trade Area was launched in Lusaka, Zambia at a Summit of Heads of State. Out of 21 member states, nine countries formed the pioneering group. These were – Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe. The rest of the member States committed themselves to the Free Trade Area in the near future.

The pioneering countries are expected to comply with the protocol established by the Free Trade Area to allow goods and services emanating from member states of the Free Trade Area enjoy zero tariffs. In general terms trade between Zambia and Kenya has increased since 2000. Kenya's exports to Zambia rose from Kshs 168m ($ 2.2m equivalent at Kshs 76.2 to a dollar) in 2000 to Kshs 405m ($ 5.1m at Kshs 78.6 per dollar) in 2001, while Zambia's exports to Kenya rose from Kshs 310m ($ 4m) in 2000 to Kshs 957m ($ 12m) in 2001 (Source: Government of Kenya, Economic Survey: year 2002).

However, as a result of the elimination of trade barriers in 2000, goods that were once not exported to some markets have now access to these markets and are now being exported. For instance, its is during this period that Kenya started exporting edible oils to Zambia. While Zambian firms support the free trade area arrangement, concerns of de-industrialization in Zambia in this sector has heightened, due to the existing stiff competition.

The edible oil sector in Zambia was for a long time dominated by a heavily protected state company. This sector faced the problem of capacity under-utilization, shortages, high wastage and poor quality products. However, the sector has since been liberalized and the parastatal divested.

The Government of Zambia conducted a study, though on the rules of origin in relation to edible oils from Kenya. The Common Market for Eastern and Southern Africa, (COMESA), also carried out an independent study on the same subject. However, no study has been undertaken on factors that make Kenyan firms exporting edible oil products to Zambia competitive.

The question therefore, is what factors have made Kenyan companies exporting edible oil to become competitive to surpass firms in Zambia. In other words, what are the differences between exporting edible oil companies and the Zambian firms.

In order to solve this problem it would be necessary to construct a theoretical framework within which to analyze the factors that contribute to international success or competitiveness. This framework is dictated by the desirability to keep the analysis sufficiently simple for purposes of exposition. The framework to be taken is the diamond theory by Porter (1990).

According to this theory, competitiveness is derived from four factors that operate as a system. These are-

1. Factor conditions,
2. Related and supporting industries,
3. Firm strategy, structure, and rivalry,
4. Demand conditions.

1.3 Objective of the study.

The aim of this study is to find out the factors that make edible oil processing firms in Kenya competitive,

1.4 Importance of the study.

This study is important to:

(i) Government policy makers: information from this research will provide an insight into Kenya's competitive edge in the edible oil sector from which they could draw lessons to formulate sectoral policy to facilitate the development of a competitive edge in this sector,

(ii) Students and all those in academia interested in further research in this area or other related areas, the information may provide a body of knowledge for reference purposes,

(iii) Trade Representatives: this research will hopefully stimulate research in Zambian commercial officers in missions abroad to conduct research in areas where Zambian goods lack competitive advantage, with a view of suggesting to government how best to improve competitiveness in these sectors to for the purpose of either maintaining or improving the balance of trade between Zambia and the host countries as well as countries of extra accreditation,

(iv) Zambian firms in the edible oil industry: information gathered may assist them to review their operations with the aim of improving or enhancing their competitiveness,

(v) Investors: this document may be source of information for prudent investment decisions in the edible oil sector in Zambia. In other words, the information may be used for investment promotion in the edible oil sector in Zambia.

This study was also extended to Zambia in September 2002. Questionnaires were faxed to Zambia, after telephone calls to secure cooperation. However, there was no response, due to the time constraint and costs involved.

CHAPTER TWO

2.0 Literrature review.

2.1 Introduction.

This chapter reviews literature on trade between Zambia and Kenya. It also gives some background to the structure of the edible oil industry in Kenya and Zambia. The chapter further discusses the diamond theory. This theory, was developed by Michael Porter to explain the source of competitiveness of nations. Other theories mentioned in the chapter though briefly are, the theories of absolute advantage and comparative advantage, the five- partnership model, the location theory and the factor proportion theory. However, the focus of the literature is on the ''diamond theory''. This theory was chosen because it was recently developed, and it is also simple to apply, and not complicated like the revealed comparative approach.

Trade between Zambia and Kenya has increased over the past five years. Exports from Zambia have risen from $1m in 1997 to $12m in 2001. Similarly, Kenyan exports to Zambia have also increased from $2m to $4m during the same period (source Government of Kenya: Economic Review 2001, Customs, Ministry of Trade and Industry). Since 2000, when the Free Trade area was launched, a new development has occurred in Kenya's composition of trade. Kenya has for the first time started exporting edible oils to Zambia.

There are concerns in Zambia about the influx of oil imports from Kenya. A study on the rules of origin was conducted in 2001 by the government of Zambia and was verified by

another study by Common Market for Eastern and Southern African Secretariat. The results are yet to be made public, and it is not the objective of this study to divulge the findings.

2.2 Structure of the edible oil sector in Kenya.

Kenya's production of edible oil is sufficient to meet its own needs. The country consumes more than 280,000, metric tonnes of edible oil oils annually and produces approximately 320,000 tonnes annually. Despite this excess capacity, Kenya also imports edible oils, mostly by traders. The available capacity can handle 217,500 tonnes of oil seed milling, 48,000 tonnes of solvent extraction and 342,000 tonnes of oil refining per annum. In other words Kenya has the capacity to undertake oil expelling, solvent extraction and oil refining.

There are twenty two (22) refineries in Kenya, out of these seventeen (17) are found in major urban towns, Nairobi (8), Mombasa (3), Nakuru (1), Kisumu (2) and Elderet (2). One oil mill is situated in each of the following towns, Nyeri, Kitale Kisii, Malindi, Voi and Bungoma. Of the twenty two (22) processing companies, the big ones are Uniliver, Bidco and Kapa. BIDCO is currently the market leader and is ahead of its main competitors, Unilever (previously, East African Industries), KAPA and PWANI.

Over the past four years palm oil constituted 98 percent of total oil imports into the country. Most of the imports came from Singapore and Malaysia. There has been an increase in exports of edible oil products from Kenya to other countries. The exports are mainly in form of refined palm oil, coconut oil and sunflower.

2.3 Structure of the edible oil sector in Zambia.

Zambia has five edible oil refineries. These are Amanita, Hipro, Duvamont and United Refineries and Super oil refineries. The total capacity of these companies is 76,800 meteric tonnes. This installed capacity does not include onfarm processing at micro level, which has been promoted over years by NGO's.

Annual consumption of edible oils in Zambia, stands at 48,000 metric tonnes. Soya beans, sunflower and cottonseed are the main oil seeds. However, groundnuts have not been used as a major raw material, as most of the crop is directly consumed and also used for making confectioneries. Fuzzy cotton has mostly been exported. The main sources of edible oil are therefore soyabeans and sunflower. Overall production of oil seeds has declined since 1996. Production for soyabeans fell from 40,050.09 to 2,020.59 metric tonnes in 2000, while sunflower production fell from 26,177.80 to 8,074.15 metric tonnes during the same period.

2.4 Definition of competitive advantage.

Faced with rapid changing market conditions and increasing competition, the survival of a firm depends on how it positions itself in its industry locally, regionally and globally. Specifically, its survival is determined by its ability to compete successfully in its own market. Competitive advantage, therefore is a critical factor in the success of any firm or nation. What does competitive advantage therefore mean? What are the factors that determine competitive advantage?

In attempting to define the term competitive advantage, it is worth to note that Individuals and companies consider this concept. But when competitive advantage is viewed at national scale, the situation becomes more complex, especially in an increasingly competitive world. This is because, there is neither a single definition of competitive advantage nor single determinant of competitive advantage (Porter, 1990, p,3). The term competitiveness is perceived in different ways by different authorities and has been defined in many ways by different authors. There is even a more serious problem to explain competitiveness, in that there is no general acceptable theory to explain this terminology (Porter, 1990, p,3). This suggests therefore, that the term has several definitions.

This suggestion is supported by several definitions suggested by different definitions many writers on this subject have come up with. In his book of '' The competitive Advantage of Nations'', Porter gives several different definitions by different writers.

According to Porter (1990), some see national competitiveness as a macroeconomic phenomenon, driven by such variables as exchange rates, interest rates, and government deficits. Others argue that competitiveness is a function of cheap and abundant labour.

Furthermore, Porter (1990) states that to firms, competitiveness means the ability to compete in world markets with a global strategy, while to some economists competitiveness means a favourable trade performance. On the other hand other writers like Laura D. Andrea Tyson define competitiveness to mean the ability to produce goods and services that meet the test of international competition, while the citizens enjoy a standard of living that is both rising and sustainable (Tyson 1993).

The Organization of Economic Cooperation and Development (OECD) also has its own definition along the same lines. According to OECD, competitiveness should be understood as the ability of companies, industries, regions, nations and supranational regions to generate, while being and remaining exposed to international competition, relatively to high factor income and factor employment levels on a sustainable basis (OECD 1998). This definition comes close to that given by Laura. Both of them attach emphasis on sustainability and the good welfare of citizens. But Krugman (1994) argues that competitiveness is nothing but a different way of saying '' productivity'' taking into account the rate of growth of one firm relative to others. Despite these different interpretations there is a growing consensus about the importance of competitiveness. This concept has become a critical factor to firm survival.

Firms that embrace competitiveness are likely to survive in this new global economic environment of stiff competition. Those that lack competitive advantage are headed for extinction. This opinion seem to be reinforced Reinert by (1995), who said, ''although often misused and mostly ill defined, the term competitiveness properly used does describe an important feature in the world economy''.

For the purpose of this study competitiveness will be used to mean a company's or nation's advantage over others, derived from certain factors that enable a firm or a nation to perform remarkably superb than others and sustain their presence in the competitive environment. This definition is not much different from the others that have been given, but it goes beyond by adding that competitive advantage is derived and not inherited. Further more it is more close to Porter's views on competitiveness.

2.5 The diamond theory.

There is no single conceptual framework to explain a nation's or a firm's competitive advantage. This means therefore, that several models exist to explain the concept. This view appears to be supported by the two different paths taken by Porter on one hand, and that of famous economists Adam Smith and Richard Ricardo. In his book entitled'' The Competitive Advantage of Nations'' Porter uses the ''diamond theory ''to explain the sources of competitive advantage, while Smith and Ricardo used the absolute Advantage and Comparative advantage models respectively. According to Porter, his model differs fundamentally from that of Smith and Ricardo.

The difference between Porter's framework and those of Smith and Ricardo tend to lie in the approach. Porter's approach is micro- based, while that of economists is aggregate based. Porter's framework begins by studying firms and competitors and building up to the economy as a whole, whereas economists examines competitiveness from the total economy suggesting nations compete. However, in supporting his approach to evaluating competitiveness, Porter argues that competitive advantage is won or lost by industry, suggesting clearly that firms are the ones who engage in business, leaving nations to influence the ability of firms to succeed in particular industries. Porter further argues that the outcome of thousands of struggles in individual industries determine the state of the nations economy and ability to progress.

However, Porter's (1990) view on the role of firms in a nation appears to tie with a World Bank Report (Globalization and Competitiveness in the Middle East and North Africa Region) which states, that firms and not nations compete. To illustrate this situation for instance, firms that have failed to compete have shut down (e.g, Zambia Airways which was liquidated in early 90's), but the nation has remained and is still in existence.

Porter's (1990) views suggest that the performance of industry in a nation shape the state of the economy. Yes, this is true, and this project takes the case of Kenya to illustrate this linkage between industrial performance and the state of the economy. Over the past few years the manufacturing sector in Kenya, including tourism and agriculture have performed poorly. The result, has been a decline in the Kenya's Gross domestic product, rising unemployment and an increase in poverty levels.

However, Kenya is not the only country facing this problem, there are other countries too. Nevertheless, Kenya was given as example since this research was being conducted within Kenya.

The ''Diamond Theory'' is all about the four determinants or factors that create competitive advantage. It refers to the determinants as a system. While economists argue that international trade occurs because of differences in factor endowments (Heckscher-Ohlin –Sammuelson model), Porter holds a different view. Porter argues that, factor inputs in themselves, are not a sufficient condition for competitiveness. There is not much disagreement between Porter (1990) and the economists on factor endowments, except that Porter qualifies the conditions, under which factor endowment will create competitive advantage. One would assume that when economists developed their theory, of course they had in mind that these resources must be efficiently utilized. It could be through advanced technology, good management and so forth. It would also be assumed that the economists had assumed a competitive economic system under which these factor endowments would be utilized. It is also true that in a monopolistic situation, with high barriers of entry factor endowments would lead to competitive advantage. However, any advantage achieved through protection is not sustainable.

In other words, factor inputs themselves, have become less and less valuable in an increasing global economy and therefore competitiveness is not limited to those nations with a favourable inheritance. Porter argues that competitiveness is neither secured by size nor military might, because neither is decisive for productivity.

Instead prosperity depends on creating a business environment, along with institutions, that enable the nation to productively use and upgrade its inputs. This means that there are other factors that lead to national competitiveness. Porter (1990) identifies four factors that foster national competitiveness these are,

(i) factor conditions,

(ii) demand conditions,

(iii) support and related industries,

(iv) firm's strategy, structure and rivalry,

These factors are discussed in detail in the later part of the literature review.

(i) Factor conditions.

Competitive advantage does not occur in abstract. It is a function of factors combined together. For competitive advantage to be secured therefore, these factors must exist. They could be natural or man made. Natural factors are those created by nature, such as land, climatic conditions, minerals, location and so forth. On the other hand, man made conditions are those made by man, and they include infrastructure, a pool of well educated people, favourable economic conditions and so forth.

According to economists, each nation is endowed with factors of production. They are merely inputs needed to produce a commodity or good. Smith assumed that international trade was based on absolute advantage. Absolute advantage refers to the ability of a country to produce a commodity more efficiently (Samuelson).

Such absolute advantage had in fact, historically been the basis of International Trade and is still the cause in many commodities. Building on Smith's pioneering ideas, Ricardo established the Law of Comparative Advantage as a fundamental rational for trade. In his law of comparative advantage Ricardo demonstrated that the flow of trade among nations is determined by the litre (not absolute) costs of goods produced. According to Ricardo, the international division of labour and countries tend to specialize in those commodities whose costs are comparatively lowest.

The classical theory of trade is based on a number of assumptions or abstractions from reality. It omitted the cost of transport, and assumed that factors of production were mobile domestically but immobile internationally. Furthermore the theory assumed that comparative advantage was static, a gift from nature and could not be transferred. The model is furthermore based on a two country and two -product approach. While Porter appears to agree with the economist's view on the importance of factor conditions as determinant of competitive advantage, he however, argues that factor conditions are not the sole determinant of competitive advantage and that these factors are less important. In other words Porter says the mere availability of factors is not a sufficient condition securing competitive advantage. According to him, competitive advantage is a function of the rate at which factors are created and upgraded and made more specialized to a particular industry and not the abundance. Furthermore, Porter argues that productivity is vital for competitiveness and that it is created rather inherited. Indeed Porter's views are realistic. Zambia has abundant arable land, good climatic conditions, but despite this Zambia lacks a competitive advantage in agriculture.

On the other hand, the model by Smith can not be rejected out right. It has contributed to the understanding of the causes of international trade and has built a foundation for developing alternative views. Porter (1990) divides factors of production into two categories. Basic, and advanced. Basic factors include natural resources, climate, location, unskilled and semi skilled labour. They are possibly inherited. If they are created, their creation requires modest investment. According to Porter basic factors are either unimportant to national advantage or the advantage they provide is unsustainable. Porter argues that the importance of basic factors has been undermined by either their diminished necessity, the widening availability or ready access to them by global firms through foreign activities or sourcing from international markets. However, basic factors remain important in extractive or agriculture based industries and in those where technological and skill requirements are modest and technology is widely available.

The other category of factors is advanced. These factors include digital communications infrastructure, highly educated personnel such as graduate engineers and computer scientists, and University Research institutes in sophisticated disciplines. Porter views advanced factors as the most significant ones for competitive advantage. These are created and require huge investment, and are scarcer. The second distinction among factors of production is their specificity. Some factors are general and include a pool of well- motivated employees with college education. They can be deployed in a wide range of industries. They are easily available.

On the other hand specialized factors are those with specific properties. They can not be deployed in a wide range of industries. While generalized factors support rudimentary types of advantage, specialized factors provide more decisive and sustainable bases for competitive advantage. According to Porter, competitive advantage based on basic and generalized factors is unsophisticated and often fleeting. His view is that advanced and specific factors are important in attaining high order competitive advantage. In other words, firms or nations should rely on advanced and specialized factors in order to sustain their competitiveness.

(ii) Demand conditions.

The success or failure of a firm depends primarily on its ability to understand demand conditions. This means that understanding of the forces behind demand is a powerful tool for developing competitive advantage. In a competitive environment demand conditions are dynamic and sophisticated. Buyers are knowledgeable and demanding. For the firm to survive, therefore, it must meet the sophistication and demands of buyers. This therefore, calls for constant upgrading by the firm to remain in the market. A relationship therefore exists between demand conditions and competitiveness. In other-words the composition of demand shapes how firms perceive, interpret and respond to buyer needs. Nations gain competitive advantage in industries or industry segments where home demand gives local firms a clearer or earlier picture of buyer's needs than foreign rivals.

Nations also gain advantage if home- buyers exert pressure on local firms to innovate faster and achieve more sophisticated competitive advantage compared to foreign rivals Porter, 1990, p 86). Demand conditions vary. There are three characteristics of the composition of home demand particularly to achieving national competitive advantage.

Segment structure of Demand. Often demand is segmented in industries. In other words demand is distributed. For instance the demand for cooking oil can be distributed according to the raw material used. That is soyabean, sunflower, and palm oil. Segments could also be classified into local and global. Competitive advantage is likely to be attained from a global segment where significant economies of scale exist.

Sophisticated and demanding buyers. In a competitive environment demand conditions are dynamic and sophisticated. On the other hand, in less dynamic economic environment demand conditions are less dynamic and sophisticated. For instance, in America, consumers are concerned about the nutritional values of their food, they are concerned about the value of the health and so forth. This dynamism has an influence on the competitiveness of an industry. In an environment of fast changing preferences, high demand firms must be able to move at the same pace with changing demand and must be able to meet the demand to survive. This therefore calls for competitiveness.

Porter (19900 tends to share this view. According to Porter (1990), demand conditions have an influence on industrial competitiveness. Demand influences economies of scale. In other words there exists a relationship between demand and economies of scale.

For example, low demand is likely to result in low economies of scale and vice versa. In an industry with high demand and dynamic features, firms are more likely to react by upgrading their production capacity and engage in innovative activities. Increased economies of scale and innovation in search of new production possibilities would lead to competitiveness through low cost production.

In summary, sophisticated and demanding buyers exert pressure on firms to meet high standards in terms of product quality and service. A nations buyers can have unusually stringent needs for a wide variety of reasons including, geography, climate, natural resources availability, taxation, tough regulatory standards and social norms.

Anticipatory buyer needs. The success of a firm or nation is to anticipate the needs of buyers whether locally or abroad. Competitive advantage can be derived where needs of home buyer's anticipate those of foreign nations. This means that, the needs of local buyers would provide an early warning indicator of buyer needs that will spread (Porter, p,91). Anticipatory buyer need may arise because of a nations political or social values foreshadow needs that will ultimately emerge elsewhere.

(iii) Related and Supporting Industries.

In every industry, there other firms which are directly or indirectly related to the activities of the other industry. Related industries are companies that produce products that share customers or channels.

For instance, the edible oil processing industry, has links with agricultural based industries that produce oil seeds such as soyabean, sunflower, palm oil and groundnuts, used as raw materials to extract and refine oil. The edible oil sector has also links with the packaging industry, manufacturers of equipment and spare parts used in the process of oil refining.

Other examples of related industries include leather footwear products with leather working machines, leather footwear products and parts of footwear and also designer services. The cement production and construction industry, telecommunication and office equipment, transport and metals and tourism and the hotel industry are other examples of related industries.

The relationship between an industry and its related industry for instance, the edible oil industry has an effect on the operational activities of the other. To a large extent the degree of interdependence influences the competitive advantage over the other. For instance, increased productivity in oil refinery due to high demand will result in high demand for more packaging materials. On the other hand, the high cost of refinery may put pressure on equipment suppliers to innovate to improve and reduce operational costs. Low oil yield (extraction) from seeds may put pressure on farmers to innovate and come up with new varieties of oil seeds that would improve the yield and result in high oil content.

In other words, the ability of an industry to develop its competitiveness from related industries depends on how the related industry upgrades itself. Furthermore, the competition of suppliers in that particular industry would have an influence on the competitive advantage of the buyers. For instance, in an industrial environment characterized by numerous sellers, competition among sellers could translate into low costs of raw materials and other inputs, which in turn would influence the final cost of production and eventually the price of the commodity.

This view appears to be shared by Porter. According to Porter, the presence of internationally competitive suppliers has an influence on the national competitiveness of an industry. Porter identifies one such benefit as the low cost of inputs, which result from competition among sellers and the high bargaining power of industrial buyers.

Furthermore, Porter (1990) argues that advantages are derived from close coordination and process of innovation and upgrading by international suppliers, which trickle down to users of inputs. This means that as competition intensifies in the seller's market, firms tend to become more innovative to upgrade and become more competitive.

This innovation leads to reductions in production costs, efficiency, which are passed on to industrial buyers or nations. However, the presence, breadth and international success of related and supporting industries in a nation is influenced by other determinants.

They include factor conditions, which are skills, knowledge and technology created in the industry. The breadth and specialization of supporting industry is, enhanced by the size and growth of home demand for a product. Were home demand is high, production is likely to increase resulting in economies of scale that could translate into competitive advantage. Aggressive domestic rivals also has an influence on the success of a related - industry.

For instance, if an industry is saturated with many suppliers, competing for the same market, this industry is likely to innovate to compete and survive in the market. That is the survival of firms in that industry will depend on how they react to the moves taken by their competitors e in that particular industry. An industry with intense competition is likely to cause rivalry, unlike an industry dominated by one supplier.

(iv) Firm's Strategy, Structure and Rivalry.

Firms do not operate in a vacuum. They operate in an environment in which they have and have no control to some extent. Success therefore, depends on how the firm fits itself into the market structure. The firm's strategy, structure and the environment in which it operates therefore is critical in influencing or determining the competitiveness of the firm.

Domestic rivalry for instance, like any other rivalry creates pressure on firms to improve and innovate and to create new products and processes.

Active pressure from rivals stimulates innovation as much fear of falling behind as inducement of getting ahead (Porter, 1990, p,118). Rivals push each other to lower costs, improve quality and service. Porter calls this, the firm's strategy, structure, and rivalry and classifies it as the fourth determinant of competitiveness.

According to Porter (1990), the firm's strategy, structure and rivalry refers to the context in which firms or nations are organized and managed as well as the nature of domestic competition. Porter, holds the view, that the goals, strategies of running firms or nations differ widely. National or industrial competitiveness rests a good match between these choices and the sources of competitive advantage in a particular industry.

The way in which firms are managed and compete is influenced by national circumstances. No one managerial system is universally appropriate. Nations will tend to succeed in industries where the management practice and models of organization favoured by the national environment are well suited for the industry source of competitive advantage.

Porter gives some examples. For instance, Italian firms are world leaders in a range of fragmented industries (such as lighting, furniture and woollen fabrics and packaging machines), in which economies of scale are either modest or can be overcome through cooperation among loosely affiliated companies. Italian firms most often compete by using focus strategies, avoiding standardized products and operating in small niches with their own particular style or customized product variety.

Often dominated by a single individual, these firms rapidly develop new products and can adapt to market changes with breathtaking flexibility. In Germany, for instance, the engineering and technical background of many senior executive produces a strong inclination to the world methodical product and process improvement Porter,1990,)

These characteristics lead to the greatest success in industries with a high technical or engineering content (e.g. optics, chemical, complicated machinery) especially where intricate and complex products demand precision manufacturing, a careful development process, after sale service and hence a highly disciplined management structure.

Differences, in management practices approach occur in some areas such as training background, orientation of leaders, groups versus hierarchical style, the strength of individual initiative, the tools for decision making, nature of relationships with customers and ability to coordinate across functions, the latitude international activities and the relationship between labour and management. These differences in managerial approach and organizational skills create advantages and disadvantages in competing in different types of industries.

In supporting this theory '' diamond theory'', Porter conducted four (4) studies on national competitive advantage. Specifically Porter carried out studies in four different countries, in different industries.

The Printing Press industry in Germany, the Patient Monitoring Equipment Industry in the United States, the Ceramic Tile Industry in Italy and the Robotic Industry in Japan. The studies revealed a common pattern of industrial competitive evolution. The nation's competitiveness depends on the capacity of its industry to innovate and upgrade (Porter, 1990, p,44). In addition they benefit from having strong domestic rivals, aggressive home based suppliers, and demanding local customer (Porter, page, p,44).

Competitive advantage of nations result from the differences in culture, management style, infrastructure, economies, institutions, histories, demographics and factors that affect the way people live and do business. So by using such differences to continuously improve and innovate, a nation's competitive advantage will increase. In other words, factor conditions, demand conditions, related supporting industries and firm strategy, structure and rivalry, are what Porter calls '' the diamond of competitive advantage''.

2.6 Five Partnership Model

There are five elements under this model. These are a flagship firm, key suppliers, key customers, competitors and non-business infrastructure.

1. **Flagship Firm.**

The flagship firm is a leader in business in a particular industry. It has the perspective and resources to lead a network in crafting and successful execution of a global strategy. It provides strategic direction and purpose to the network by orchestrating relationships among members.

Specifically, it is the global perspective and scope of the flagship form that enables it to guide the network activities to global standards, restructuring the production of products and services to different network partners, approach for relationships and competition. The four partners with the flagship firm yield strategic leadership to the flagship, but assume leadership in execution and operationalizing of strategies. Flagships compete with flagships.

(i) Key Suppliers

Suppliers are firms that provide either raw materials or finished products to manufactures, wholesalers or retailers. Without them production or merchandising may not take place, with the exception where the firms have their own materials. Firms have an option to source supplies from many suppliers or to obtain them from a few limited number of sources. Each option has its advantages and disadvantages. Under the five partner model, the presentation for the supplier relations is diametrically opposite. Rather than dealing with many suppliers, the network model suggests that Flagship firms should consciously undertake a Key supplier programme, reducing the number of suppliers dramatically even to the point of appointing a single supplier for key inputs. Rather than playing one supplier off against the others, flagships should join forces with key suppliers to create a competitive system. Instead of competitive bidding, international bench marking is the preferred method of managing input costs.

The role of key suppliers in crafting of strategy for the network is critical and crucial and requires, a two way process not unlike the top-down, bottom up process between corporate and business units in large firms. In the top-down approach, the flagship provides the supplier with its vision for the direction of the network and the supply relationship, the objectives, constraints, within which supplier strategy is to be developed, and the general guidelines for the strategy development process. In the bottom up process the supplier proposes specific strategies to achieve the objectives, indicates the resources required for executing these strategies and proposes prices and other terms.

The flagship responds to the proposals and where possible refinements are made and an agreement reached and the deal sealed. It is only those suppliers for critical inputs who probably would deserve this arrangement. This model is similar to the Japanese Purchasing method called Just In Time (JIT). This model allows for the development of a purchasing programme, whose delivery is based on the right quality right quantity and right time. The aim of the programme is to minimize purchasing costs by improving purchasing.

(ii) Collaboration with key customers

Equally important is the way customers are viewed. Sometimes firms are in a competitive relationship with buyers, and whoever exerts more influence wins the battle. This competition shows itself in profits and prices between the firm and the buyer.

When buyers have the market power, it is likely that this power will be used to exercise downward pressure on prices and impose unfavorable terms of trade on the firm. Consequently, a firm is likely to develop a guard against the development of market powers by its customers.

Under the flagship model, flagship firms make conscious choices about which customers are considered key customers, and deals with these in a different manner fom the way it deals with the rest of customers. Central to this relationship is the theme of collaboration with customers – sharing information and analysis of the competitive environment freely, developing joint strategies to enhance the prosperity of the customer while conferring competitive advantage to the firm, and developing a high level of integration of operations between the firma and key customers. As in relations with key suppliers, the flagship firm has a leading role in the strategy development process for the customer in this relationship. Vision and strategic direction come form the flagship, but this does not prevent the customer from playing an active role.

(iii) Flagships and Governments.

The relationship between the flagship and government assumes to be the leader of the other. That is sometimes, firms want to exert and keep government at arms' length and regard them with suspicion, particularly multinationals. The phrase "the best government is the least government" captures the spirit of this attitude well.

Furthermore, governments have attempted to exercise a leadership role in developing national industrial strategy, and have tried to elicit the cooperation of business through a variety of incentive schemes and regulatory measures. In the five partnership model, both these approaches are reversed. Flagship firms seek close cooperative approaches with government, moreover, the flagship must assume the leadership role in the industrial strategy development process.

The model does not differ fundamentally from that of Porter (1990) diamond theory. The only different lies in factor endowment, which is not discussed in the five-partnership model. The rest of the elements found in the five-partnership approach, namely key suppliers, key customers, competition and government seem to fit into Porter (1990), model. However, it is therefore evident that there is a linkage between the firms and the external environment in which they operate.

2.7 Location theory.

This is another framework that attempts to explain competitiveness. According to this theory, export success is a function of location. In other words, the model approaches export success merely in terms of differences in absolute production costs and costs of transversing space (Dunning 1981). For instance, Sudanese Sugar is more competitive that Zambian sugar, because of location differences and costs of production. Sudan has lower production costs and is near Kenya than Zambia. Location therefore, results in differences in transportation costs.

An incentive to export may also result from the inability of a country's host firms to compete efficiently due to the absence of a market sufficiently large to yield economies of scale in production. However, Porter (1990) argues that location is not a critical factor in competitive advantage. According to Porter (1990), competitive advantage based on basic factors is not sustainable.

Whatever, the case may be, there appears consensus between the two writers that location advantage could lead to competitiveness. Porter (1990), unlike Dunning (1981) seems to look at competitiveness more from a long term point of view. Further more, Porter (1990) tends to believe that location advantage can easily be eroded. For instance, the advantage of size, of being part of a large organization and of being able to internalize will affect a firm's competitive advantage independently of location of its activities. Thus location advantage may only apply to some kinds of trade only.

2.8 Technology differences.

This theory is based on differences in technological efficiency among nations. The framework emphasizes the possession of superior technology as an explanation for trade and production. Superior technology not only improves efficiency, and leads to quality but also results in economies of scale. Production costs related to economies of scale therefore will be relevant to competitive advantage. However, rates of growth of markets will determine the extent to which economies of scale may be exploited as a result of technology advantage.

The greater the innovative ability of an enterprise, the greater its resourcefulness, and the more talented its managerial and labour force, the higher its market share is likely to be. However, it is not the possession of superior technology that brings about competitive advantage, but rather the capability of the firm to internalize that technology. It is also not the orthodox type of monopoly advantage which give the enterprise or nation an edge over its rivals, actual or potential, but the innovation ability to design new process of production.

2.9 Factor proportion theory.

Predicts that a nation relatively abundant in capital will export the relatively capital intensive goods and import goods for which domestic production requires relatively large amounts of its relative scarce factor, labour. Thus if we know, the country's relative factor abundance, we can predict the direction of trade. However, Leontif challenged this theory by carrying out a research on the American economy. Leontif observed that it was commonly agreed that the United States possessed a relatively large amount of capital and a comparative small amount of labour vis-à-vis the rest of the world.

It follows therefore that the United States would export capital intensive products and import those that require relatively large amounts when produced in the United States. The results were that the importing competing products were more capital intensive that the United States exports. The results of the study did not only stimulate similar studies, but they brought a barrage of alternative explanations.

In relation to this study, there is a gap in trade and competitive advantage between Zambia and Kenya, particularly in the edible oil sector. Kenyan firms appear to have the competitive advantage, over Zambian firms in this sector. By borrowing from the Kenyan experience as well from the literature on factors that create competitive advantage, the Zambian industry could improve their competitive advantage.

CHAPTER THREE.

RESEARCH DESIGN.

3.1 Introduction.

The first part of this chapter deals with the research design used in achieving the objectives of the study. The second part analyses the data that was collected from firms identified for the purpose of this study.

3.2 Research Design.

To accomplish the objectives of the study, the research design took form of a survey. The pre- structured survey covered a set of variables on the edible oil firms exporting to Zambia. These variables were human factor endowments, demand conditions, supporting and related industry and firm structure, strategy and rivalry. The survey method was used because it has been used in similar studies before.

3.3 Population.

Though there are twenty one oil edible oil refineries, only three companies are exporting to Zambia. These are BIDCO, KAPA and PWANI oil refineries. These three companies therefore formed the population of the study. Exporting to Zambia was therefore a criteria for choosing these companies. This criteria limited the participation of other companies exporting elsewhere other than to Zambia, like Unilever.

3.4 Census

The whole population was taken for the purpose of the study since there were only three firms exporting to Zambia. If many companies were selling to Zambia, these would have been included in the study. Thus the population consisted of BIDCO in Thika, KAPA in Nairobi, and PWANI in Mombasa.

3.5 Data collection.

The survey method was used to collect data using a questionnaire. Primary data was collected. The researcher was personally involved in the distribution of questionnaires to the Managing Directors of selected firms. Questionnaires were handled personally by the Managing Directors of these companies. For clarification purposes the researcher was present at the time questionnaires were being filled in. Data collected related to the year of establishment of the company, ownership, and other export destinations. Also collected was data related to human factor endowment. This information comprised the characteristics of human factor endowment, the relationship between human factor endowment and competitive advantage, training programmes, type, purpose and Kenya's educational programme and how it influences competitive advantage in this sector. On demand conditions, information obtained constituted the level of sophistication of demand in Kenya. Data on supporting and related industries included, types of raw materials used, the source, cost, structure of the supplier's market, cost of packaging and cost of transportation and research activities in related industries.

With regard to firm strategy, structure and rivalry, data collected related to the structure and number of players in the sector, intensity of competition within the sector, organizational culture, type of strategy and organizational structure. Secondary data was used as background information.

CHAPTER FOUR.

4.1 Data analysis and interpretation.

Content analysis approach was used to determine the factors that make firms exporting edible oil products to Zambia competitive than their counterparts there. All the three companies chosen for this study, BIDCO, KAPA and PWANI responded and returned questionnaires. The response was therefore 100 percent. Information presented was adequate to draw sufficient conclusion.

4.2 Introductory information.

Firms that were selected for the study have been exporting to Zambia since the launch of the Free Trade Area on 31st October 2000 by the Common Market for Eastern and Southern African organization, in Lusaka, Zambia. However, the study revealed that, other than exporting to Zambia, all the firms studied, BIDCO, KAPA and PWANI have been in exporting to other countries. In addition these firms have been in export business for at least nine years on average. One would therefore suggest that these companies were ready for the free trade area arrangement. The length of time, during which these firms have been exporting to other countries, seem to be the source of advantage. They have been in this business for long.

According to the study, this development was attributed to Kenya's strong industrial base in the East African region and the mission statements of these companies, which are outward looking. Kenya has developed relatively faster due to appropriate policy and stability compared to Tanzania's socialist policy and economic instability in Uganda a decade ago.

TABLE 4a. Year of Establishment of the companies.

Name of Company	Year of Establishment	Export Destination
BIDCO Oil Refinery	1991	Congo DR, Burundi, Eritrea, Ethiopia, Malawi, Madagascar, Rwanda, Sudan, Uganda, Tanzania and Zambia
KAPA Oil Refineries	1976	Congo DR, Tanzania, Ethiopia, Malawi, Somalia, Uganda and Zambia
PWANI Oil Refineries	1985	Burundi, Congo DR, Ethiopia, Eritrea, Malawi, Rwanda, Sudan and Zambia

Source: Field survey 2002

Table 4a, shows the years these companies were established and export destination of these companies. While, one company provided data on its export volumes for 2000 ($1m), 2001 ($1.4m) and for the first half of 2002, ($2m) respectively, two companies did not. Information on the share of exports to total production was also with held including their local market shares for strategic reasons. The period during which these companies have been in export business has contributed to their competitive advantage over firms still inward looking.

Table 4b. Installed capacity and capacity utilization.

Company Name	Installed Capacity (metric tons/day)	Capacity Utilization (%)
BIDCO Oil Refinery	500	72
KAPA Oil Refinery	500	60
PWANI Oil Refinery	150	100

Source: Field Survey 2002

Table 5b shows installed plant capacities for the three companies and the levels of utilization, suggesting significant capacity utilization.

4.3 Analysis of the Diamond theory elements.

This section looks at the element of the diamond theory in relation to the study.

i. Factor endowment: human resource.

The response on human factor endowment (abundance) varied among the three companies from high to average. Two firms indicated that Kenya had a high level of human factor endowment, while only one firm described the human factor endowment as average. With regard to other characteristics of human factor endowment, the response among the threes firms varied again from highly educated, highly disciplined to highly motivated.

However, one company indicated that Kenya had highly educated labour force, with the other company suggesting a highly disciplined labour pool. The third company responded by describing the labour force as having all the characteristics. This difference in opinion simply reflects individual perceptions on how these firms view the existing labour factor endowment. Despite this difference in opinion, all the three firms were in agreement that there was a relationship between the human factor endowment in Kenya and their competitiveness.

According to the respondents, human factor endowment resulted in efficiency and high productivity. However nothing was said about the innovative aspect of human endowment in Kenya. Generally one would suggest that the human endowment in Kenya was of general in nature. This type only supports rudimentary advantage. No special features or characteristics were mentioned. One would therefore suggest that while there is abundant human factor endowment, this endowment is not specialized. It does not have specific properties and can be deployed in a wide range of industries.

Furthermore, the study found that training was common in all firms. These firms undertook training for its workers to increase productivity. Two firms conducted a combination of in house and other methods, while one company conducted in house training only. However, the study shows that the type of training differed from company to company ranging from general to specialized and a combination of both.

According to the study, training was conducted to improve the capability and technical knowledge of the human resource to increase efficiency. In other words training was

employed to upgrade the skills and knowledge of employees to raise productivity. The study also reveals that there was consensus among the firms that there was a relationship between training and their competitive advantage. A well trained, highly motivated and highly disciplined labour force displayed high productivity. The study also revealed that, training was beneficial to both employees and the organization.

The employee benefited from upgraded skills and new knowledge, while the organization got better results through improved productivity leading to competitive advantage. The budgets for training ranged from Kshs 1-2m for one company to Kshs 2m for the other. One company did not provide figures on its training budget. The three respondents described the attitude of workers towards management, as good. However, there was a difference of opinion on whether there was a relationship between the attitude of workers towards management and competitive advantage.

Two firms agreed this relationship existed via increased productivity, while the other company held a different view with no elaboration. The firms that acknowledged the relationship indicating that warm relations between workers and management resulted in trust, confidence and efficiency and less lost time in man hours. It would have been interesting to know why the third organization held a different view. This is an area that would require follow up. This opinion contradicted Porters (1990) that a relationship existed. However, the study did not find anything to suggest that these firms had a unique type of training for unique skills.

The type of training was merely advanced skills, which could adapted and only required minimum investment. For instance training in use of computers, monitoring quality and quality testing were not very sophisticated. Furthermore the training available was not tailored towards innovation in processes of production. In summary training is an essential component of these organizations. Furthermore, there was a relationship between training and productivity and competitive edge.

TABLE 4c. Cost of Labour.

Categories of Labour Company Name	Managerial (Kshs)	Supervisory (Kshs)	Clerical (Kshs)
BIDCO Oil Refinery	50,000	25,000	7,500-10,000
KAPA Oil Refinery	30,000	10,000	5,000
PWANI Oil Refinery	12,000-15,000	10,000-12,000	8,000-10,000

Source: Field Survey 2002

Table 4c. Indicates the cost of labour for the three firms. Figures reveal a significant difference in labour costs between the companies. The two respondents described the cost of labour in Kenya to be low, whereas the third company indicated that the cost of labour was medium. This suggests that an agreement among the firms that the cost of labour was not high. Costs were compared to similar industries else where by the respondents to arrive at this conclusion. Two companies indicated there was a relationship between labour costs, whereas the third disagreed. Two firms responded giving figures on the cost of labour as a percentage of total production.

In one firm the cost of labour costs represented 10 percent of the total costs, while in another company, this constituted 40 percent. However, one firm did give figures. This would suggest that probably that was the source of the firm's competitive advantage. Information on the labour force in these firms was not availed. However, the cost of labour was described as a major factor in competitive advantage by two firms.

One interesting finding was that the firm with the lowest wage rates had the highest percentage ratio of labour costs to total costs. Probably, this suggests that the company was labour intensive. Other factors that were mentioned that have an influence on competitive advantage were, quality and price. Poor, infrastructure and government levies were cited as the major constraint.

Again the factors mentioned in this paragraph are basic and can easily be eroded. For instance, at one time South Korea was a force in construction because of low wages and the work culture of the nationals. Today this is not the case. On the other hand, Germany is a high cost nation including Switzerland, but despite this, these nations are highly competitive nations. Price alone therefore is not a basis for sustainable competitive advantage.

ii. Related and Supporting industries.

Raw materials, structure of the industry, competition and price.

Soyabeans, Sunflower and Palm oil were the major raw materials used in refining edible oil. Only one firm reported using palm oil only to refine cooking oil, while two other companies use palm, soyabean and sunflower crude oil. These materials are obtained from Singapore and Malaysia, and for over account for 98 percent of the total raw materials used. Production of oil seeds in Kenya is low, resulting in imported raw materials to meet production demand.

Table 4d. Production of Oil Seeds in Kenya 1991 –1998 in 000mt.

Crop Production Year	Cotton	Soyabean	Sunflower
1991	28.4	4.0	18.7
1992	31.8	2.3	10.7
1993	20.7	1.8	5.5
1994	28.6	3.25	9.9
1995	24.4	5.56	10.5
1996	33.5	14.8	7.2
1997	22.8	11.5	5.9
1998	34.6	5.3	5.9
1999	-	-	-
2000	-	-	-
2001	-	-	-

Source: Central Bureau of Statistics- Kenya.

Table 4d on page 45, shows production of oil seeds in Kenya from 1991 to 1998. The table shows that production of the oil seeds particularly for soyabean and sunflower has been low, and has declined drastically during the same period, suggesting the reason for imports of crude oil and crude palm to meet industrial demand.

TABLE 4e. Price of Raw Materials.

Price $/metric ton **Company Name**	**Palm**	**Soya**	**Sunflower**
KAPA Oil Refinery	390	400	450
PWANI oil Refinery	400	-	-
BIDCO Oil Refinery	-	-	-

Source: Field Survey 2002

Table 4e. Shows the price of raw materials at fob excluding transport costs. These materials were bought at world prices, suggesting little bargaining buyer power. Strategic sourcing was the only best option for obtaining the best prices. As shown in the table, there was no significant difference between the price of palm and sunflower, however a significant difference was noted between palm oil, soyabean oil and sunflower. At $450 per tonne, sunflower was the most expensive raw material. However, prices of crude keep on changing at the international market, and thus are not static. One firm did not provide figures on the price, suggesting that could be their source of competitive advantage.

TABLE 4f. Transport Costs.

Price $/metric ton Company Name	Palm	Soya	Sunflower
KAPA Oil Refinery	70	70	75
PWANI oil Refinery	45	-	-
BIDCO Oil Refinery	-	-	-

Source: Field Survey 2002

Table 4f. Shows transport costs per metric ton for the raw materials. Significant differences were found in transport costs between the three companies. Transport cost to Nairobi was $70 per metric tonne for soyabeans and sunflower, and $75 for palm oil. The cost of transport for palm to Mombasa was $45 per tonne. This difference reflected the distance between Mombasa and Nairobi and represented inland cost. Clearly, the $15 per metric tonne on palm would suggest a source of advantage for the Mombasa based firm. However, it would not be prudent to suggest that this difference could be one of the sources of competitive advantage, without taking into account other factors, though according to location theory, location is a factor. For instance, the ratio of the cost of labour of the Mombasa based company is four times higher (40 percent), compared to the Nairobi based company at 10 percent. Looking at the differences in the ratio of the cost of labour between the two companies, it is likely the advantage of the other company could easily be offset by lower labour costs as a ratio of total costs enjoyed by the other company, which was four times much lower. Respondents described the structure of the market for raw materials as competitive.

However, there were differences of opinion on the relationship between the structure of the supply market and the competitive advantage. Two firms agreed this relation existed, stating that the competitive nature of the supply market translated in good prices for raw materials, which in turn had a bearing on production costs. However, on the other hand, one other firm held a different view, suggesting there was no relationship at all. This firm did not spell out the reason.

Nevertheless, one would argue to say that since the price of crude was internationally, fixed, with individual firms having no control over prices, the effect on competitive advantage was minimal. It would have been interesting to know the response of the third company had they responded. The differences in response between the two companies reflected different perceptions on the influence of the market structure on competitive advantage. The response on research activities, between the firms, and related industries was, described as average and low again here giving different opinions. However, one firm indicated research in related industry had resulted in better packaging. This also shows the different perceptions on research in related industries, again suggesting the question had alternative answers and these answers depended on the perception of the individual. However, there was consensus that there is no strong relationship in research activities with related industries.

iii. Firm strategy, structure and rivalry.

The study revealed that there were differences in the organizational culture between firms exporting to Zambia. One organization described its culture of aggressiveness, while the other described its culture as being market responsive, with the third firm indicating teamwork/ family culture as its organization culture. However, when it came to organizational structures, the study found that there were differences. Two companies had loose and leaner types of structure, while the third company had a highly structured type. The loose type of structure was preferred in two companies because of flexibility and the shorter responsive time. The short responsive time and the flexibility of the structures led to quick decision making and easy adaptability to the changing environment, resulting in competitive advantage. All companies agreed there was a relationship between organizational culture, structure and their competitive advantage. Meanwhile, organizational strategies differed. Two firms pursued cost leadership, whereas the other adopted the focus strategy.

All the firms were in agreement that a relationship existed between their strategy and their competitiveness. The study also revealed that these firms exported their products directly, and admitted competition within industry was rife and took form of pricing, advertising and product quality. There was agreement that rivalry within industry had led resulted in competitive advantage as each company tried to out do each other through upgrading in new investment, product quality, packaging and service. Both companies have invested in new equipment to realize the economies of scale.

The study, suggests that organizational strategy, structure and competition within industry in the edible oil sector in Kenya has played a great role in competitive advantage. However, the strategies appear to be less global. One would therefore suggest that the strategies appear to be regional. These firms must therefore shift the focus to global strategies to sustain their competitiveness.

iv. Demand conditions.

The respondents described the demand conditions in Kenya for edible oil products as sophisticated. Consumers were described as quality conscious. All the three companies responded there was a relationship between demand conditions and competitive advantage. Through sophisticated demand, firms were compelled to upgrade to produce high quality goods to meet the demand pressures exerted on the firms by consumers.

However high poverty levels in Kenya estimated at over 50 percent of the population, was a major constraint to demand conditions in promoting competitiveness. This suggests the reason why firms have become more outward looking. One company, not included in the study, recently called trying to explore opportunities in Zambia suggesting the Kenyan market was saturated. The role of government in creating demand conditions was described as weak.

v. Role of Government.

Generally the economic environment in Kenya was described as enabling by all the respondents, since the country adopted a liberal economic policy. Despite the general economic policy, being supportive, however respondents indicated that there were no specific incentives to promote competitiveness in this industry other than the general incentives offered to all firms such as duty exemption on raw materials and the 5 percent duty imposed on machinery.

The response on Government factor creation in form of investment in infrastructure varied from low to medium. While two firms described government investment in infrastructure as low, one firm indicated government effort was average. However, all the three respondents agreed that there was a relationship between infrastructure and competitive advantage and that infrastructure in Kenya required immediate attention. Poor infrastructure led to high costs of transportation and affected final prices of products and hence the competitive advantage based on price for a company relying on low cost strategy.

CHAPTER FIVE:

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS.

This chapter outlines the findings of the study and suggests recommendations.

The study found that, firms in the edible oil sector have been in the export business for a long time even before the Common Market for Eastern and Southern African organization (COMESA) Free Trade area was launched. These firms are owned by locals, have strong family ties and clear corporate missions. The management structures of these firms varied ranging from loose, leaner and flexible and very responsive for two firms to highly structured for the other firm. The study reveals also that the structure of the edible oil market is competitive. Its is composed of twenty -two firms, with a significant number of key players. This has resulted in stiff competition and the need to out do the other and search for alternative markets not only out side the region but in other regions as well. It is clear therefore, that for a long time, these firms have been exposed to competition among themselves. Consequently, this development has prompted these firms to upgrade their facilities through new investments in new equipment in order to remain in business. Investment in new technology has led to improved production methods, lower production costs, an improvement in quality and low material waste. It is further evident that the strategies, management structures had a bearing on the competitive advantage of firms exporting to Zambia. The companies have been upgrading their operations through investment in modern technology. Location had also a bearing on the competitiveness of firms exporting to Zambia. The advantage arose from lower transport costs.

There was also a relationship between competitive advantage and the size of the internal market. Kenya has a large population. In conclusion firms in Kenya seem to enjoy the diamond to some extent leading to their competitive advantage.

5.1 Recommendations.

(i) **Location.** Kenya is strategically located. Its location therefore minimizes the cost of transport compared to Zambia. In view of the above, it is recommended that the Zambian Government focuses on improving productivity of the local agricultural industry to reduce the cost of raw materials so that these materials can be obtained locally to overcome the disadvantage occasioned by location.

(ii) **Technology .** Firms exporting to Zambia have invested in modern technology. The result has been increased plant capacity, efficient production, low wastage, economies of scale, and good quality products. Zambian firms must review their state of technology with view to upgrade their facilities and be able to compete with firms in Kenya that are exporting to Zambia. Furthermore, the government has a role to promote new technology and innovation through research and securing low interest fund.

(iii) **(iii) Management practice.** Both firms exporting to Zambia have very strong family ties. Their management style was characterized loose, leaner and flexible structures. The result was a shorter responsive time.

(iv) Furthermore, both emphasized training of their staff though the types of training differed. Though management practice differs from one organization to another and depend on the circumstances, Zambia firms should review their management practice.

(v) **Macroeconomic environment**. The macro economic environment in Kenya was must favourable. Inflation was within a single digit, interest rates were around 22 percent, the rate of exchange of the shilling was stable. Raw materials were exempted from duty while machinery and equipment attracted only 5 percent. These factors have been supportive to the competitiveness of firms. The Zambian government should evaluate the macroeconomic environment to align it to the development of the industry. However, the government should go beyond these simple incentives, which are common every where.

(vi) **Firms took early lead**. Firms in Kenya started exports even before the Common Market Eastern for Southern African organization, Free Trade Area was launched and thus have developed the capacity to compete and were therefore ready to meet the challenges of the free trade area. This suggests that firms must be outward looking and aggressiveness to become competitive. Action is in the field and not in the backyard. Firms in Zambia must review, their corporate missions to see how they fit into this new economic order of competition.

(vii) **Industry structure.** In Kenya, the industry structure is competitive. It is comprised of twenty -two companies all scattered across the country, but with the largest concentration in Nairobi, all competing for the local market and very much out looking. Competition in the local industry in Zambia should be encouraged to promote competitive advantage. However, this must be supported, by an enabling macroeconomic environment.

5.2 Limitations of the study.

The major limitation to this study was the withholding of data by companies on the cost of crushing of soyabeans, their market shares, the share of their exports to local supply and their financial positions. In some cases inadequate answers left areas not sufficiently analyzed. This information would have made this study more meaningful. Time was also a constraint. The study would also have been more comprehensive if Zambian firms had responded on time.

5.3. Suggestions for further research.

So far two research studies have been conducted in this sector in relation to trade between Zambia and Kenya. The first study was in 2001 on the rules of origin. The second study is this one on factors that determine competitiveness. It would be interesting to conduct a study on whether the ''diamond'' exists in Zambia for Zambian firms to develop competitive advantage. It would also be interesting to study whether production costs or added value in form of processing is the best method conferring to the rules of origin.

Of particular interest would be, supposing a firm does not meet the 35 percent added requirement because of efficient production, and that all the raw materials are imported, how will a situation like this be treated?

Appendix I

QUESTIONNAIRE

A. Organizational details.

1.0 Name of the Company.....

2.0 Location.....

3.0 Which year was your company incorporated?.....

4.0 Ownership: Please tick appropriate answer.

(i). Foreign ( )

(ii) Indigenous ( )

(iii) Local JV ( )

(iv) Foreign JV ( )

5.0 Which countries are you exporting to other than Zambia?.

Please list them.

6.0 How long have been exporting to these countries if answer is yes?

Please indicate length of time.....months/ years

7.0 What quantities did you export to these countries in $?

(i) in 2000.....

(ii) in 2001.....

(iii) first half of 2002.....

B. **Factor conditions.**

1. **Human Resource.**

How would you describe the human factor endowment in Kenya?

(i) High ( )

(ii) Average ( )

(iii) Low ( )

2. What are the main characteristics of the human factor endowment?

(i) Highly Educated ( )
(ii) Highly motivated ( )

(iii) Highly disciplined ( )
(iv) All of the above ( )
(iv) Other, please specify.....

3. Is there a relationship between these characteristics and competitive advantage? Please tick the appropriate box.

(i) Yes ( )
(ii) No ( )
(iii) Please explain .....

4. Do you train your workers?

(i) Yes ( )
(ii) No ( )

Please explain why

5. If answer to question four is yes, where do you conduct your training ?

(i) In house ( )

(ii) other ( )

Why please explain.....

6. If answer to question five is yes, what is type of training?

(i) Specialized ( )

(ii) General ( )

Please explain why.....

7 Is there a relationship between this type of training and competitive advantage?

(i) Yes ( )

(ii) No ( )

Please explain how/why.....

8. What is your annual training budget? ZK.....

9. Which is your areas of emphasis in training?.....

10. Who benefits from training?.....

11 What is the attitude of workers towards management?

Please explain.....

12 Is there a relationship between workers attitude towards management and competitive advantage?

(i) Yes ( )

(ii) No ( )

Please explain.....

13. Is Kenya's educational programme tailored towards creating competitive advantage in your industry?

(i) Yes ( )

(ii) No ( )

Please explain how/why.....

14. How do you describe the cost of labour in Kenya?

(i) High ( )

(ii) Medium ( )

(iii) Low ( )

Please give indicative figures for

(i) Managerial Kshs.....

(ii) Supervisory Kshs.....

(iii) Clerical Kshs.....

15 What is the ratio of labour costs to total production costs?.....

16 Are labour costs a major factor in your competitiveness?

(i) Yes ( )

(ii) No ( )

Please explain how/why.....

17. What are other factors affect your company's competitive advantage?

Please list them in order of hierarchy

18. What are the major constraints your company faces in this area?

19. What are your suggestions to these constraints?

C. Related and supporting industry.

1. What type of materials do you use?
   (i) Soyabeans ( )

   (ii) Sunflower ( )

   (iii) Palm oil ( )

   (iv) All ( )

2. Where do you obtain your raw materials?

   (i) Locally ( )

   (ii) Abroad ( )

   Please explain the reason and what is the ratio.

3. What is the cost of your raw material per tonne fob?

   (i) Soyabeans $

   (ii) Sunflower $

   (iii) Palm oil $

4 What is the cost of transport for your raw materials?

(i) Soyabeans $

(ii) Sunflower $

(iii) Palm oil $

5 What is the structure of the supplier market?

(i) Monopoly ( )

(ii) Oligopoly ( )

(iii) Competitive ( )

6 Does this type of supplier market affect your competitive advantage?

(i) Yes ( )

(ii) No ( )

Please explain.....

7 What type of relationship exists between your firm and suppliers?

Please explain.....

8 Does this relationship influence your competitive advantage?

(i) Yes ( )

(ii) No ( )

Please explain.....

9 How would you describe research activities in related industries?

(i) Active ( )

(ii) Average ( )

(iii) Low ( )

10 Is there a relationship between research activities in related industries and competitive advantage?

(i) Yes ( )

(ii) No ( )

Please explain.....

11 What is the level of cooperation between your firm and related industries in research activities?

(i) High ( )

(ii) Average ( )

(iii) Low ( )

12 Is there a relationship between the level of cooperation and your competitive advantage?.

(i) Yes ( )

(ii) No ( )

Please explain.....

13 Have you benefited from research activities from related industry?

(i) Yes ( )

(ii) No ( )

Please explain.....

14 What is the cost of packaging per metric tonne?

15 What is the cost of energy per metric tonne?

D. Firm strategy, structure and rivalry.

1.What is your organizational culture?

3. Is there a relationship between organization culture and competitiveness?

(i) Yes ( )

(ii) No ( )

Please explain.....

4. What type of organizational culture do you have in your firm?

(i) Highly structured ( )

(ii) Loose ( )

5. Is there a relationship between your firm's organizational culture and competitive advantage?

(i) Yes ( )
(ii) No ( )

Please explain.....

6. What is your organizational strategy?

(i) Focus ( )

(ii) Low cost ( )

(iii) Niche ( )

7 Is there a relationship between your strategy and your competitiveness?

(i) Yes ( )

(ii) No ( )

Please explain.....

8. How do you export your product?

(i) Agency ( )

(ii) Direct ( )

(iii) Other, please specify.....

9. What type of competition takes place in your industry?

(i) Pricing ( )

(ii) Advertising ( )

(iii) Product quality ( )

E **Demand conditions.**

1.0 How would you describe demand conditions in Kenya?

(i) Sophisticated and demanding ( )

(ii) low and less demanding ( )

2.0 What other features characterize demand conditions in Kenya? Please outline them and explain who they influence competitiveness.

3.0 Is there a relationship between demand conditions and competitive Advantage?

(i) Yes ( )

(ii) No ( )

Please explain.....

F. **Role of Government.**

1.0 How would you describe the business environment in Kenya?

(i) Conducive and enabling ( )

(ii) Not conducive ( )

Please explain.

2.0 What incentives does the government provide? Please outline them.

3.0 How would you rate government investment in factor creation?

(i) High ( )
(ii) Medium ( )
(iii) Low ( )

4. Is there a relationship between government factor creation and Competitiveness?

(i) Yes ( )
(ii) No ( )
Please explain.

5.0 Is there a government policy to create competitiveness in the edible oil sector?

(i) Yes ( )
(ii) No ( )

If yes please outline how this affects your competitiveness.

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Appendix 111.

Letter of Introduction to the Respondents.

2nd September 2002,

Henry Eusebius Kapacha,
University of Nairobi,
Faculty of Commerce,
P.O Box 30197,
NAIROBI.

Dear Sir/ Madam,

RE: REQUEST FOR DATA ON YOUR ORGANIZATION.

My name is Henry Eusebius Kapacha. Iam a student at the University Of Nairobi, currently pursuing an MBA programme in International Business. In partial fulfillment of the requirements of the Master of Business Administration (MBA), Iam conducting a study entitled '' **TRADE BETWEEN ZAMBIA AND KENYA: AN INVESTIGATION INTO FACTORS THAT MAKE KENYAN EDIBLE OIL SECTOR COMPETITIVE''.**

Since the COMESA Free Trade Area was launched on 31st October 2000, your organization has been exporting edible oils to Zambia. Considering the warn and cordial relationship existing between Zambia and Kenya and the need by the two governments and the private sector both countries to share experiences in commerce for the purpose of enhancing bilateral cooperation and promoting trade, your firm was chosen to participate in this study.

In view of the above therefore, Iam requesting your organization to provide data by filling this questionnaire. The information provided is purely for academic purposes and will be treated in strict confidence.

Yours faithfully,

Henry Eusebius Kapacha.
MBA Student.

DR John Yabs.
Supervisor.