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Relationship between Strategic Responses and Competition in the Sugar Industry in Western Kenya Region

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Abstract

This study sought to assess the strategic responses adopted by sugar firms in Western Kenya region to respond to competition in the sugar industry. To achieve this goal, the study employed descriptive survey design. The target population for this study was the management staff in sugar firms in western Kenya region comprising of Kakamega, Busia, Vihiga, Bungoma, Kisumu, Kisii, Nyamira, Homabay, Siaya, Transnzoia and Migori Counties. Primary data was collected using semi-structured questionnaires which was subjected to a pilot test to ensure it is reliable and had content validity. The data collected in this study was analyzed quantitatively. Quantitative data was analyzed using descriptive and inferential statistics where the latter was obtained from correlation and multiple regression analysis to respectively determine the association between variables and the overall effect of the three predictor variables – the competitive forces - on strategic responses by sugar firms in Western Kenya region. The study found out that the channels of distribution determined the customers reach and that the buyers' focus influenced the product pricing. The supplier competition was found to be high in sugar industry; and that the uniqueness of inputs for production benefited the organizations. The study concluded that there was a significant relationship between threat of new entrants and competitive strategies adopted by the sugar firms in western Kenya region. The threat of new entrants significantly influenced the competitive strategies adopted by the organizations. The power of suppliers significantly influenced the competitive strategies adopted by sugar firms in western region. The study recommended that in order to remain competitive in the market, sugar firms in western Kenya region to undertake appropriate, persuasive strategies so as to compete effectively among other rivals in the industry. Sugar firms should further be keen on pricing, the channels of distribution in order to gain from repeat business and boost its competitive advantage over their competitors.

Background

Globalization and competition in the world markets, changing characteristics of trade relations and effects of government policies have created a new dynamic business environment for sugar firms worldwide (Kegode, 2015). This has resulted into a market structure shaped by liberalization, interdependence and technological advancements. In view of that highly competitive market, companies must quickly grasp opportunities, respond to threats and outmaneuver their rivals to endure and succeed (Thompson, 2016).

The environment within which sugar firms in Western Kenya region operate is constantly changing and firms have to respond to these changes (KIPPRA, 2010). Strategic planning and management has developed as a response to increasing challenges caused by high levels of environmental turbulence. Strategy helps firms to cope with change by designing appropriate strategic responses to improve firm performance (Pearce and Robison, 2013).

To obtain firm performance within the scope of sustainable competitive advantage, decisions on shaping firm's competitive strategies are one of the main issues for managers under firms' business level strategy. Because, the formulation and completion of competitive business strategies that will improve performance are one of the competent methods to achieve firm's sustainable competitive advantage. Therefore, the impact of competitive strategies on firm performance is a major issue of unease for the policy makers and has been playing an important role to refine firm performance for a long time. Competitive advantage is the result of a strategy helping a firm to maintain and sustain a favorable market position. This position is translated into higher profits compared to those obtained by competitors operating in the same industry (Calcagno, 2010).

In the Kenyan sugar industry, two forces from horizontal competition and one force from vertical competition are the most critical for sugar firms. These include threat of established rivals, threat of new entrants and bargaining power of suppliers (KSI, 2010; KSB, 2010). There are several sugar processing factories in Kenya, divided into parastatal and private owned factories. Government run factories include; Nzoia, Sony, Muhoroni, and Chemelil sugar firms while the private sugar firms include Mumias, Kibos and Allied, Butali, Sukari Industries, Trans Mara and West Kenya. Currently, the industry directly supports approximately 250,000 small-scale farmers who supply over 92 percent of the cane milled by the sugar firms. An estimated six million Kenyans derive their livelihoods directly or indirectly from the industry (KSI, 2010).

The sugar industry in Kenya plays an important role in the country's economy. However, it currently faces a multitude of problems, both at the farm (cane producing) and the factory (sugar producing) levels. The problems hampering growth at the factory level are; high operating costs, cheap imported sugar from COMESA countries, inefficient and old factory machinery that forces the sugar factories to operate below the maximum crushing capacity. These constraints make the sugar industry in Kenya very inefficient and uncompetitive. Many sugar firms are forced to constantly operate below capacity, leading to a situation in which the national consumption of milled sugar (which currently stands at an average of 600,000 metric tonnes per year) outweighs the production level at 400,000 to 450,000 metric tonnes (KSB, 2014). This shortfall creates room for cheaper imported sugar (from COMESA countries) which is sold at a much lower price than the local sugar - a scenario which further hurts the sugar industry in Kenya.

Statement of the Problem

The sugar industry in Kenya plays an important role in the country's economy. However, it currently faces a multitude of problems, both at the farm (cane producing) and the factory (sugar producing) levels. The problems hampering growth at the factory level are; high operating costs, cheap imported sugar from COMESA countries, inefficient and old factory machinery that forces the sugar factories to operate below the maximum crushing capacity. These constraints make the sugar industry in Kenya very inefficient and uncompetitive.

The government of Kenya has constantly sought extensions to open its sugar market to COMESA as sugar firms in Kenya are not yet competitive enough in the region (COMESA, 2015). If cheaper COMESA imports are allowed into the country, they will push Kenyan sugar firms out of business. It is our role to nurture and develop the indigenous products of our country. Previous studies have not shown the specific sugar firms' competitive strategies motivated by their response to threat of established rivals, threat of new entrants, power of suppliers and bargaining power of customers. They have looked into process of liberalization (Kegode, 2015), business environment that sugar firms operates in (KIPPRA, 2010), competition in the sugar industry in Kenya as well as in the international markets (KSI, 2010; KSB, 2010; KSB, 2014). It is against this backdrop that this study sought to assess the strategic responses adopted by sugar firms in Western Kenya region to respond to competition in the sugar industry. If care is not taken, local firms may be pushed out of business causing people to lose jobs and cause a reduction in tax revenues.

Purpose of the Study

The aim of this study was to assess the strategic responses adopted by sugar firms in Western Kenya region to respond to competition in the sugar industry.

Specific Objectives

i. To determine the relationship between threat of established rivals and competitive strategy adopted by sugar firms in western region.
ii. To explore the relationship between threat of new entrants and competitive strategy adopted by sugar firms in western region.
iii. To describe the relationship between power of suppliers and competitive strategy adopted by sugar firms in western region.
iv. To establish the relationship between bargaining power of customers and competitive strategy adopted by sugar firms in western region.

Research Questions

i. What is the relationship between threat of established rivals and competitive strategy adopted by sugar firms in the western region?

ii. How does the threat of new entrants relate to competitive strategy adopted by sugar firms in the western region?
iii. What is the relationship between power of suppliers and competitive strategy adopted by sugar firms in the western region?
iv. How does the bargaining power of customers relate to the competitive strategy adopted by sugar firms in the western region?

Theoretical Orientation

The study was guided by Strategic choice theory, Porter's five forces analysis framework and Porter's generic strategies at the conceptual level.

Strategic Choice Theory

Strategic Choice Theory describes the role that leaders or leading groups play in influencing an organization through making choices in a dynamic political process (Child, 1997). A sharp increase in competitive pressures forces firms to make decisions that can have far-reaching effects. First, the firm must reassess its commitment to its current line of business and decide whether it wants to attempt to compete in the environment or to withdraw and reallocate its capital resources. Second, if the firm chooses to remain active in the market, adjustments in its competitive strategy may be needed. Third, the strategic choices made by firms that remain in the market require them to rearrange their capital in order to take advantage of new profit opportunities. Finally, changes in business strategy and their related production decisions affect the validity of existing organizational structures, particularly the extent of vertical integration. The business decisions are influenced by the history and current state of industrial relations in the firm and the industry. The key consideration is whether wages and labor costs have been taken out of competition.

Porter's Five Forces Framework

Porter's five forces framework endeavors to analyze the level of competition within an industry with a view to assisting in business strategy development (Porter, 2008). The five forces framework was developed by Michael E. Porter hence Porter's five forces framework. The five forces are elements close to a firm that affect its ability to serve its customers and make a profit. Porter's five forces include three forces from horizontal competition namely the threat of substitute products or services, the threat of established rivals, and the threat of new entrants; and two forces from vertical competition namely the bargaining power of suppliers and the bargaining power of customers (Porter, Argyris and McGahan, 2002).

Porter's Generic Strategies

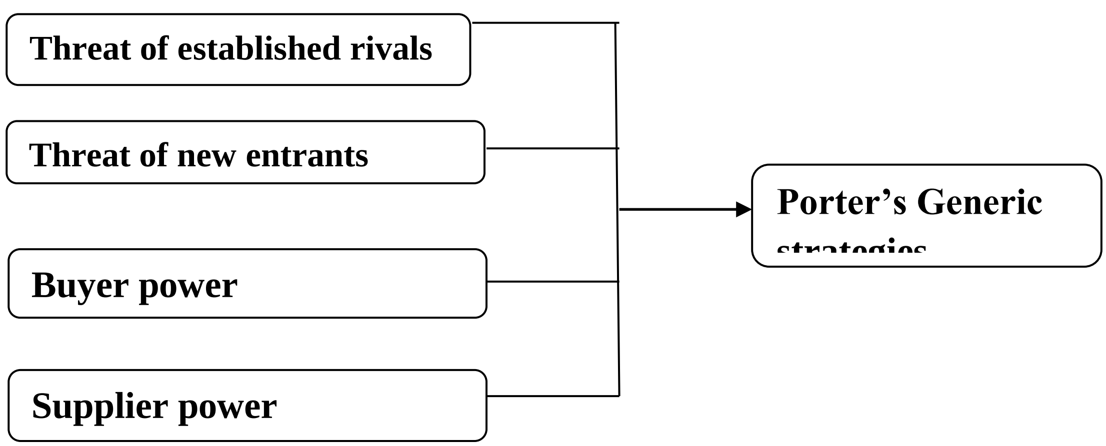
There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry. These are cost leadership, differentiation, and focus. For an organization to obtain a sustainable competitive advantage, Porter suggested that they should follow either one of the three generic strategies (Tanwar, 2013).

Stakeholder Theory

Stakeholder theory was developed by R. Edward Freeman. The general idea of the Stakeholder theory is a redefinition of the organization. The stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization. In general the concept is about what the organization should be and how it should be conceptualized. The traditional definition of a stakeholder is any group or individual who can affect or is affected by the achievement of the organization's objectives (Freeman, 1984). This main concept of this theory is that organizations should address and manage the interests and needs to the shareholders. In the context of this study, the strategic responses adopted by sugar firms are seen as a strategic way of addressing and managing the interests and needs to the shareholders. The competitive strategies enhance the competitive advantage of the sugar firms hence maximizing value of the organization to its stakeholders.

Conceptual Framework

Independent variable ***Dependent variable***



Empirical Literature Review

Njihia (2013) conducted a study on challenges of market penetration of General Insurance Firms in Kenya. The main objective of the study was to establish the challenges of market penetration of general insurance companies in Kenya. The study was informed by the recent activities in the insurance market that has seen firms being forced to seek regional expansion without even saturating the Kenya market. The findings on the contribution of the three strategies to enhance market penetration that has been much dominated by the established rivals in the Kenyan market, revealed that most of the respondents were of the opinion that Low cost leadership, differentiation, as well as market focus strategies can enhance market penetration of general insurance companies. It was therefore important for organizations to consider adopting the three strategies in order to be able to enhance market penetration so as to effectively take on the established rivals.

Mburu (2015) conducted a study to establish how large Multinationals within the Kenya Beverage Industry employ Porter's Five Forces to enhance competitive advantage which in turn influence the firms' performance. On threat of new entrants, the study found that, the Kenyan Beverage Industry is attractive for long-term profitability. The findings also indicated that the MNC's share value exceeds that of other industry players in the same segment and thus very attractive to lure new entrants. Indiatsy *et al*. (2014) conducted a study to establish The Application of Porter's Five Forces Model on Organization Performance with Cooperative Bank of Kenya Ltd as their case study. On the treat of new entrant, the study found out that the Threat of new entrants applies to the banking industry due to the presence of various microfinance organizations, youth funds, women funds and savings and Credit Societies (SACCOs) performing similar roles and offering such products and services at lower rates.

Mathooko and Ogutu (2015) conducted to establish the extent to which Porter's five competitive forces (PFCF) framework, among other factors drive the choice of response strategies adopted by public universities in Kenya. The study found out that PFCF framework influenced the choice of response strategies adopted by the public universities "to a great extent", the most influence being the threat from new entrants. The influence of the choice of response strategies by PFCF framework was independent of the age and category of the universities. Pressure from stakeholders, changes in government policies and regulations, reforms in higher education, unethical response strategies by some universities and university location also influenced the choice of response strategies.

Indiatsy *et al*. (2014) conducted a study to establish the Application of Porter's Five Forces Model on Organization Performance: A Case of Cooperative Bank of Kenya Ltd. On the buyer power, the study found out that that the Bargaining power of buyers within the banking industry is critical in terms of understanding the bank's buyers and successfully meeting their demands as a way of retaining them and achieving high customer satisfaction for repeat sales. Mburu (2015) conducted a study on Porter's five forces influence on Competitive Advantage in the Kenyan beverage industry in a case of large Multinationals. One of the objective of the study was to establish the extent to which the bargaining power of the buyers affect competitive advantage. The study found that innovation through technological development impacts the quality of products sold through buyers and has a positive impact on return on assets.

Chege and Bula (2015) conducted a study to assess the effect of market forces on the performance of Kenya Cooperative Creameries (KCC). The study found that the main challenges faced by KCC are the threat of new entrants, which reduced sales, threat of substitute products which led to price reduction, the bargaining power of customers to lowering of prices so as to maintain these customers, bargaining power led to procurement of milk at a lower price. Hitt *et al*. (2013) conducted a study on strategic leadership in global business organizations. They hold that a winning competitive strategy is always founded on consistently understanding and predicting changing market conditions and customer needs. The goal of much of business strategy is to achieve a sustainable competitive advantage. The study found out that a competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage).

Research Gaps

Even though the issue of strategic responses has been widely studied, this study found key gaps in the previous studies that make for the need of this study. While firms stake out different strategic directions, there has not been adequate explanation for large performance variances within a single industry such as the sugar industry in Western Kenya region. The underlying motivation for this study is the quest for those factors that may provide firms with a competitive advantage and hence drive firm profitability. As companies pursue different strategies, some will disappear; others may not be affected, while others may improve their performance. The study sought to uncover some of the possible explanation for these experiences so that insights can be adduced as to what measures can be taken to improve competitiveness of the sugar firms in Western Kenya region. Previous studies have not shown the specific strategic responses that have been motivated by firms' response to threat of established rivals, threat of new entrants and power of suppliers. These are key in determining competitiveness in the sugar industry in Western Kenya region.

Research Design

This research employed descriptive survey design. This is a method of collecting information by exploring and describing fact findings as they are. This research design was deemed appropriate for this study as it was efficient and easy to execute for this study. The study also adopted quantitative design as it sought to determine the relationship between the independent variable (competition in the sugar industry) and the dependent variable (strategic responses by sugar firms). This quantitative research design was descriptive as the variables were measured once. The descriptive study established only associations between the variables under measurement.

Target Population

The target population for this study was the management staffs in the 10 sugar firms in western Kenya region comprising of Kakamega, Busia, Vihiga, Bungoma, Kisumu, Kisii, Nyamira, Homabay, Siaya, Transnzoia, Narok, Kericho and Migori Counties. Management staffs were the respondents since they were in a position to provide important insights for this study in regard to strategic responses or competitive strategies that the sugar firms in the western Kenya region had adopted as a result of competition in the sugar industry.

Sampling Procedure

The study used purposive sampling, a non-probability method, to select the respondents. This is because the researcher already knows the strategic departments in sugar firms whose heads can provide insightful information for this study (finance, marketing, operations, production and quality assurance). There are 10 sugar firms in western Kenya region. This study focused on five (5) management staffs from each of the 10 sugar firms who were in charge of the critical departments in sugar firms namely finance, marketing, operations, production and quality assurance. The sample size for this study therefore was selected from a target of 50 respondents. Krejcie and Morgan (1970) Table was used for determining the sample size for the study.

Instrumentation

This study collected primary data using semi-structured questionnaires. This method was considered appropriate because it was an efficient and economical way to collect data from a large population. The questionnaire was subjected to a pilot test whether it was reliable and valid. In this study, pilot testing was done by administering the questionnaires to five (5) respondents who did not take part in the main study. Pilot testing highlighted the weaknesses of the instruments and areas for improvement. Cronbach alpha was used to establish reliability.

Methods of Data Collection

The researcher used drop-and-pick-later method to administer the questionnaires. This method was preferred as it gave the management staff ample time to respond to the questionnaires at their convenience. The researcher sought a research permit to carry out the study. Permission was also sought at the firm level where data was collected. The researcher sought informed consent from the respondents. The researcher also informed the respondents that they had a right to withdraw from the study at any stage if they felt uncomfortable to continue with it.

Data Analysis

The data collected in this study was analyzed quantitatively. Quantitative data was analyzed using descriptive and inferential statistics. The Statistical Package for Social Sciences (SPSS) was used to aid in analysis. Results of quantitative data analysis were presented in tables and charts. Descriptive statistics such as frequencies and percentages were used to analyze the background information of the respondents such as gender, age, level of education, position in the organization and duration worked for the organization. A multiple linear regression analytical model was used to determine the statistical significance of relationship between each of the industry (competitive) variables and the three strategic responses– the competitive strategies.

Ethical Considerations

The researcher sought informed consent from the respondents. The respondents were requested not to indicate any identifying information in the questionnaire. Confidentiality was upheld throughout the study and the respondents were assured that information obtained was exclusively for academic purposes.

Data Analysis Results

The study carried out the Pearson product moment correlation analysis and regression analysis to examine the relationship between strategic responses and competition in the sugar industry in western Kenya region.

Pearson Correlation Results

		Threat of Established Rivals	Threat of new entrants	Buyer power	Supplier power	Strategic Responses
Threat of Established Rivals	Pearson Correlation	1				
	Sig. (2-tailed)	.				
Threat of new entrants	Pearson Correlation	-0.083	1			
	Sig. (2-tailed)	0.650	.			
Buyer power	Pearson Correlation	0.093	.000	1		
	Sig. (2-tailed)	0.611	1.000	.		
Supplier power	Pearson Correlation	-0.060	.299	.310	1	
	Sig. (2-tailed)	0.745	.096	.084	.	
Competitive Strategies	Pearson Correlation	0.087	.521(**)	.201	0.491(**)	1
	Sig. (2-tailed)	0.637	0.002	0.271	0.004	.
	N	32	32	32	32	32

*** Correlation is significant at the 0.01 level (2-tailed).*

The correlation results show that there is a positive and statistically significant relationship between threat of new entrants and strategic responses as shown by r= 0.521 and p= 0.002<0.05. The correlation results also show that there was a positive and statistically significant association between Supplier power and strategic responses as shown by r = 0.491 and p= 0.004< 0.05). The results however indicated a positive but statistically insignificant relationship between strategic responses and threat of established rivals (r= 0.087, p= 0.637>0.05); and Buyer power (r= 0.201, p= 0.271>0.05).

Regression Analysis

A multivariate linear regression model was used to establish the relationship between strategic responses and competition in the sugar industry in western Kenya region. The predictor factors were; threat of established rivals, threat of new entrants, buyer power and supplier power while the dependent variable is competitive strategies.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.649(a)	0.421	0.335	0.795

a Predictors: (Constant), Threat of established rivals, Threat of new entrants, Buyer power, Supplier power

The R shows the linear relationship between the dependent and the independent variables in the regression analysis while R-Squared/adjusted R-Squared is the coefficient of determination which tells us how the predictors varied with the dependent variable. The results in model summary show the value of the R-squared as 0.421. This implies that there was a variation of 42.1% between strategic responses and competition in the sugar industry in western Kenya region. The competition explained 42.1% of the strategic responses adopted by sugar firms in western region.

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.418	4	3.104	4.907	0.004(a)
	Residual	17.082	27	.633		
	Total	29.500	31			

a Predictors: (Constant), Threat of established rivals, Threat of new entrants, Buyer power, Supplier power

b Dependent Variable: Competitive strategies

The study used ANOVA to establish the significance of the regression model to give reliable results. An F-significance value of p=0.004 was established. This shows that the regression model has only a 0.004 (0.4%) probability of giving a wrong prediction. Hence the regression model has a confidence level of above 95%. The regression model was therefore significant and the results could be relied upon.

Regression Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.865	1.649		-1.131	0.268
	Threat of established rivals	0.174	.189	.136	0.917	0.367
	Threat of new entrants	0.823	.297	.429	2.773	0.010
	Buyer Power	0.087	.168	.081	0.517	0.609
	Supplier power	0.318	.150	.346	2.126	0.043

a: Dependent Variable: Competitive strategies

From the regression results, the following equation was established: $Y = 0.823X_2 + 0.318X_4$. Buyer power and supplier were insignificant predictors of competitive strategies ($p<0.05$) and thus left in prediction model.

Conclusion

The study concludes that the threat of established rivals influences the competitive strategies adopted by sugar firms in western region. The sugar firms in western region keeps up with the changes in technology and innovations to match up and also have an edge on established rivals. The industry exit barrier also facilitates the organizations to compete aggressively to match established rivals. The brands name further gives an organization an upper hand compared to established rivals.

The study also concludes that there is a significant relationship between threat of new entrants and competitive strategies adopted by the sugar firms in western Kenya region. The threat of new entrants significantly influences the competitive strategies adopted by the organizations. The organizations had embraced innovations in order to have an edge on established rivals; and that industry exit barriers forced organizations to compete aggressively to match established rivals. However, the absolute cost associated with the sugar production is high.

The study also concludes that the bargaining power of customers affects the competitive strategies adopted by sugar firms. The buyers' price sensitivity influences strategic responses by the organizations as the channels of distribution determines the customers reach. The differential advantage put the organizations at better positions when dealing with customers.

The study further concludes that there is a significant relationship between supplier power and competitive strategies adopted by the sugar firms in western Kenya region. The power of suppliers significantly influences the competitive strategies adopted by sugar firms in western region. The supplier concentration and cooperation affects the organization access to raw materials as the supplier competition is high in sugar industry. The uniqueness of inputs for production also benefit the organizations.

Recommendations

The study recommends that in order to remain competitive in the market, sugar firms in western Kenya region should undertake appropriate, persuasive strategies so as to compete effectively among other rivals in the industry. The sugar firms should embrace innovations in order to have an edge on established rivals, they should also increase on advertisement and marketing of their products, as well as adopt latest technology and innovations to match up with the rivals. New innovations would reduce costs of production and subsequently increase the firms' profits.

The study also recommends that sugar firms should further be keen on pricing (charge their customers fairly), the channels of distribution in order to gain from repeat business and boost its competitive advantage over their competitors. The firms should also should employ or engage more talent/ skilful employees in order to enhance innovations geared towards products development, innovative marketing strategies etc.

The study recommends that sugar firms in western region in Kenya should put in place competitive strategic responses to help them gain a competitive advantage over their competitors. They should focus on strategies that benefit their organization through increased profitability at the least cost possible. Through the employment of differentiation strategies, the organizations should find strengths that enable them to broaden their scope of the market and identify a position for themselves. Through focus strategy they should expand into new markets and identify products that can help them compete within the established markets. This will be done by identifying the segments in the market that suits their products and services.

The study recommends that sugar firms in western Kenya region should diversify in order to keep up with the changing industrial environment to gain sustainable competitive advantage. This would increase its customer base and hence competing effectively with other rivals.

Through the already established relationship between competitive strategies and performance improvement in response to increased competition, the strategies put in place should be effective. These will help them to establish a profitable and sustainable position against the forces that determine industry competition. This is because good strategy can contribute to growth, profitability, market penetration, cost-reduction, cutting-edge differentiation of products and sustainable competitive advantage of business firms

Recommendations for Further Research

The study also recommends further research on ways that the sugar industry can be made more competitive. This would increase the performance of firms and help them to compete favorably both locally and internationally in order to counter cheap imports from other countries. The researcher also suggests that further research should be done on the challenges faced in adopting the competitive strategies hence hindering their effectiveness in response to increased Competition.

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