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EFFECT OF COMPETATIVE STARATEGIES ON PERFOMANCE OF SUGAR PROCESSING FIRMS IN KENYA, A STUDY OF MUMIAS SUGAR COMPANY IN WESTERN KENYA

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Abstract

Business organizations are continually seeking ways to improve their performance in order to compete effectively and aggressively in the market. This research sought to determine the effect of competitive strategies adopted by Mumias sugar on its performance. Objectives were developed based on the competitive strategies: Differentiation, Cost leadership and focused strategy with an attempt to determine how each strategy affect overall performance of Mumias Sugar. The study population was 1689 employees of the company. A sample size of 20% of the study population was drawn and data was collected using Questionnaires through Random sampling after which data collected was analyzed using descriptive statistics. The analyzed data was presented inform of frequency tables, percentages, means, pie charts and Bar graphs. The study revealed that there is need for Mumias Sugar Company to adopt focused strategy through focusing on particular market segment, Market knowledge and competitor emphasis as focused strategy positively affect its performance. The study recommended that there is need for Mumias Sugar Company to continually search for cost reductions within its business processes by conducting a value chain analysis with value adding activities being retained or improved while non value adding activities eliminated or outsourced if they cannot be fully eliminated as the study revealed that low cost leadership had a positive effect on performance of Mumias Sugar Company. The study recommends that there is need for Mumias Sugar Company to adopt differentiation strategy for the firm to succeed and be a head of its competitors the firm must study the buyer's needs and behaviors in order to learn what they consider important and valuable as the study established that differentiation strategy is a crucial competitive strategy and positively affect performance of Mumias Sugar Company.

Keywords: Differentiation Strategy, Low cost leadership, Focused Strategy and Firm's Performance

Introduction

Business organizations are continually seeking ways to improve their performance in order to compete effectively and aggressively in the market. To achieve this they need to employ strategies that will make them have a competitive edge against the competition in the industry. Henry Mintzberg (2009) defines strategy as a pattern in a stream of decisions to achieve a specific objective; on the other hand Max McKeon (2011) argues that strategy is about shaping the future to get desirable ends with the available means.

Organizational strategy thus describes how a particular organization intends to succeed in its chosen market segment against its competition. It represents the best attempt that the management can make at defining and securing the future of the organization. In formulating a business strategy it is important to analyze a firm's current position in the industry, its internal strengths and weaknesses, opportunities and threats that exist in its external environment to determine realistic strategic choices open to it. A good strategy enables a firm to meet the unmet needs in the market thus building brand loyalty and acceptance in the market hence improved performance of the firm.

Mumias Sugar from 2009 has been undertaking an aggressive growth strategy with Product differentiation, cost leadership and focused strategy being part of the growth strategy. The company has diversified into other markets like cogeneration of power and ethanol production as well as Bottled water production under the brand name "Mumias Sprinkles" in 2012, (Mumias sugar, 2014).The company has also invested in a diffuser machine that is to enable it lower its cost of production through economies of scale to achieve low cost price leadership in the market, as well as fortifying its sugar with vitamin A to differentiate it from the other player's products in the Sugar industry and also focus on the growing market segment of health conscious consumers (Mumias sugar, 2014). This study sought to determine the effect of these strategies on the performance of Mumias Sugar Company.

Competitive strategy is the plans and moves that a firm has and is taking to attract buyers, contain competition and improve its market share, (Thompson and Strickland,2005).Competitive strategy therefore enables firms earn competitive advantage by strategically positioning themselves in the market against forces that determine industry competition (Porter,1985).

The sugar industry is regulated by the ministry of agriculture through its parastatal: Kenya sugar board. The industry dates back to 1922 when the first sugar industry was established. Before liberation of the sector in early 1990s, all sugar manufactured in the country was sold to the now defunct Kenya national trading corporation (KNTC) which was charged with the responsibility of distributing the sugar throughout the country. With the liberalized market, each and every factory is now free to market and sell its sugar through appointed distributors and wholesalers across the country.

The industry directly and indirectly supports about 5 million Kenyans which represent approximately 16% of the entire population. In Kenya sugar cane is mainly grown in the western part of the country and along the coastal region. About 90% of the total cane supply is from small scale grower's popularly known as outgrowers, while the other 10% is obtained internally from the nuclear firms. The ratio of out growers to nucleus farming is a factor that influences productivity in that in a market where there is high proportion of out growers, there may be greater risk for the millers in terms of ensuring steady supply of sugarcane, since out growers are sometimes mis-coordinated and they make independent decisions about where to deliver their cane, what farming practices to follow and whether to invest further in their firms (Chisanga and Vilakazi, 2014). Kenya's total sugar requirement currently stands at about 700,000 metric tons per year, with a production capacity of 500,000 metric tons per annum, there exists a gap between production and demand of around 200,000 metric tons of which is imported. The 500,000 metric tons is produced by 13 Sugar factories namely:-Mumias , Nzoia sugar, South Nyanza sugar company, Muhoroni , chemelil, west Kenya, Soin ,Kibos, Butali,Transmara, Sukari and Kwale international sugar company (Kenya Sugar-board, 2010).

The journey to the establishment of Mumias sugar started in 1967 when the Government commissioned Booker Agricultural and Technical Services to do a feasibility study on the viability of growing sugar cane in Mumias and then initiate a pilot project, (Kenya Sugar-board, 2010). However due to the fact that land adjudication had been done and farmers had freehold titles to their land, favored the proposed sugarcane project of which studies had recommended. It was possible to establish a viable sugar scheme at Mumias with the factory supplied by cane both from the Nucleus estate and the indigenous out grower farmers (Mumias sugar, 2014).

The government accepted the findings in July 1,1971and incorporated Mumias Sugar company of which it was to hold majority shares of 71%with other shareholders being Commonwealth Development Corporation17%,KenyaCommercial Finance Company 5%,Booker McConnell 4% and the East African Development Sugar Company 3%.The major objectives of establishment being to provide a source of cash income to farmers, create job opportunities since there was no major industrial undertaking in the area at the time, curb rural –urban migration, reduce overdependence on importation and aim for self-sufficiency in sugar production and the company was also expected to operated on commercial basis and make profits (Mumias sugar, 2014).

Today the company has diversified into production of power, ethanol and water, with a capacity to produce 34MW of which 26MW is exported to the national grid. It has also the capacity to produce 24million liters of drinking water and 22million liters of ethanol annually .Its core product :Sugar which comes in different shades of white, brown and fortified is branded under the Mumias name and packed in units ranging from 5kg,2kg,1kg,1/2kg and 1/4 kg (Mumias sugar,2014)

Problem Statement

Business organizations are continually seeking ways to improve their performance in order to compete effectively and aggressively in the market. To achieve this they need to employ strategies that will make them have a competitive edge against the competition in the industry. Henry Mintzberg (2009) defines strategy as a pattern in a stream of decisions to achieve a specific objective; on the other hand Max McKeown (2011) argues that strategy is about shaping the future to get desirable ends with the available means.

According to Mulinge (2013) In an attempt to achieve higher performance, Mumias Sugar implemented a raft of strategies of which included diversifying into other markets like cogeneration of power and ethanol production in 2009 as well as Bottled water production under the brand name “Mumias Sprinkles” in 2012.The company has also invested in a diffuser machine that is to enable it lower its cost of production through economies of scale to achieve low cost price leadership in the market as well as fortifying its sugar with vitamin A to differentiate it from the other players products in the Sugar industry and also focus on the growing market segment of health conscious consumers (Mumias Sugar annual report, 2014).

With all these investment and planning the company has continued to register losses and reduced market share over the years as well as reduced productivity. The earnings per share (EPS) which is the net income per share, in the Nairobi Stock market has also dropped into the negative zone from a high of Ksh.1.30 in 2010 to a low of Ksh -1.77 in 2014,the financial returns have fallen from a profit of 1.57billion in 2010 to a massive loss of 2.7billion in 2014,productivity has also gone down from processing 2,318,080 tonnes of cane in 2010 to 1,926,758 tonnes in 2014(Mumias Sugar,2014).The market share has not been spared either, the company has lost control of about 15% of the market since 2010 when it had a market share of 45.25% as opposed to 30% in 2014.The share price in the Nairobi Stock market is currently oscillating around Ksh.1.4 from Ksh.6.25 when it was listed in 2001 (Mulinge, 2014).

Various studies have been done regarding the subject of competitive strategies: Karanja (2002) looked at the competitive strategies in the real estate firms, Owuor (2004) analyzed strategic alliances and competitive advantage in major oil companies in Kenya while Lole (2009) did a survey of product differentiation strategies adopted by firms in the banking industry in Kenya. There is need to validate the literature review especially in the manufacturing sector. It’s in reference to the above performance of the company and literary findings this study sought to undertake research on the effect of competitive strategies adopted by Mumias Sugar on its performance. This study was guided by the general and specific objectives. The general objective of the study was to determine the effects of competitive strategies adopted by Mumias Sugar on the firm’s performance.

Objectives

The specific objectives of the study are:

i. To establish the effect of differentiation strategy on performance of Mumias Sugar Company

ii. To establish the effect of cost leadership strategy on the performance of Mumias Sugar Company

iii. To establish the effect of focused strategy on the performance of Mumias Sugar Company

Theoretical Review

This study focused on various theories as discussed below

Market Based View

Market Based View model argues that industry factors and external market orientation are the key determinant of a firm's performance. The five forces theory is a classical example in this category. This theory identifies five factors that act together to determine the nature of competition within an industry to be bargaining power of suppliers, bargaining power of buyers, threat of new entrants, threat of substitutes and competition within the industry. The theory observes that a firm's performance is significantly dependent on the industry environment under which it operates. Competitive strategies development will thus have to factor in an industry analysis including the firm's environment and external factors (Porter, 1985).

For a firm to register high profits it will have to craft strategies that would ensure that it has weaker suppliers and customers while erecting high entry barriers for possible competitors, ensuring that there are few opportunities for substitutes and little rivalry within the industry. Entry barriers would take the form of high investment cost, economies of scale production, product differentiation and access to suppliers and distribution channels (Porter, 1985).

Resource Based View

Resource based view draws attention to the firm's internal environment as a key driver for competitive advantage and should be assessed in developing competitive strategies. It emphasizes the resources that an organization has deployed to compete in the market. Furrer (2008) suggests that resources that a firm has are more important than the industry as postulated by Porter in developing competitive strategies. The firm is viewed as a bundle of resources or assets that are tied semi permanently to the firm and are the primary source of competitive advantage. The classification of resources evolved from the three categories of: Physical, monetary and Human to a more detailed description to include skills and knowledge, as well technical know-how (Hofer, 1978)

Competitive strategies that are focused on streamlining of a firms internal environment by motivating staff to deliver, providing training opportunities and investing in cutting edge technology that reduces the cost of production, enables firms gain competitive advantage hence improved performance.

Theory of Strategic Balancing

Strategic balancing theory is found on the premise that any strategy of a firm is partly comparable to the strategy of an individual. Certainly the performance of a firm is affected by the actor's behaviors such as the system of leaders values (Collins, 2009).An organization waivers between many antagonistic poles that signify cooperation and competition. This allows for existence of various configurations of alliances that disappear only if the alliance swings in the direction of a mainstream of poles of confrontation.

Strategic balancing is comprised of three models which include: relational, symbiotic and deployment model. Organizations can adopt any two of the models to keep its relationship balanced. This is echoed by Belsley (1980) who stipulate that there are three types of competitive relationships: Competition dominated, cooperation dominated and equal relationship. Competitive strategies should thus concentrate on the management needs recognition process to identify strategic issues that may affect a firm's performance and mitigation measures taken to avoid poor performance.

Conceptual Framework

The conceptual framework illustrates the relationship between the independent variables: differentiation, low cost leadership, focused strategy and how they effect on the independent variable: Performance.

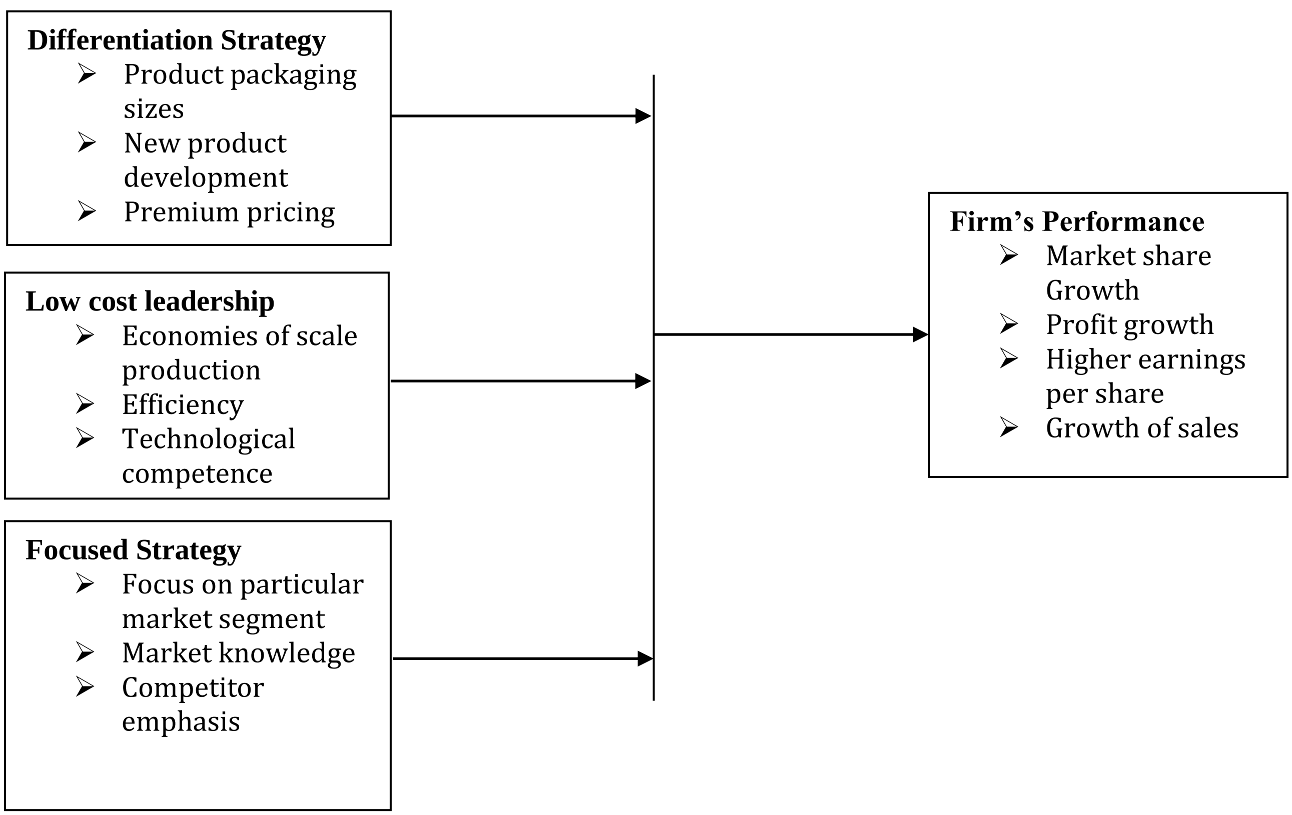

Figure 1 Representation of interaction between variables of the study

Research Gap

Research done by Gitonga (2003) established that cost leadership is one of the major strategies applied by the hospitality firms in Nairobi to enhance performance. In a similar study carried out by Kariuki (2006) three years later, the preference of cost leadership as a competitive strategy was minimal, with 72% of the respondents in the hotel industry not favoring the use of the strategy. Both researches were undertaken in the service industry, it is thus important to compare the results of these two literary findings in the commodity market. According to Njoroge(2006)In order to record good performance through the use of Differentiation strategy, firms emphasis ought to be on particular features of a product such as size, color and taste coupled by good management. There is need to conduct research to determine other ways that firms can adopt to differentiate their products apart from the above three like quality, customers care and technology dependent on the industry.

Karanja (2002) looked at the competitive strategies in the real estate firms and how they affect performance, and found out that Differentiation in Building Architecture and ability to provide low cost housing was the main competitive points in the Real estate industry that determine how much profit a firm makes in the industry. Owuor (2004) analyzed the effect of strategic alliances and competitive advantage in major oil companies in Kenya and their effect on performance, while Akinyi (2009) did a survey of income source differentiation strategies on financial performance of firms in the banking industry in Kenya and found out that banks in Kenya tend to diversify their incomes into agency banking, government securities and trading on foreign exchange, with Foreign exchange having the highest effect on the banks performance while agency Banking had the lowest effect on performance . There is need to validate the literature review and domicile it to the manufacturing sector which according to the economic survey of 2014,has a very high potential for growth and contributes about 10% of the Kenyan Gross Domestic Product. Much of the research was also done before 2009 when Mumias Sugar had not started its Aggressive expansion plan and hence the study intended to fill those gaps.

Research Methodology

This research problem was studied through the use of an exploratory research design. The research focused on the effect of competitive strategies on performance of Mumias Sugar Company. For the purposes of this study all the employees of Mumias Sugar were the target population thus the study targeted 1689 employees.

Proportionate Random sampling in every department was carried out at the firm. Purposive sampling was also done on head of departments to get their views as supervisors on the effect of specific competitive strategies on performance giving a sample size of 331 respondents as illustrated below:

Table 1 Sample Size

Target population	**N**	**Sample Size(n) purposively selected**	**Percentage%**
Functional Heads	8	8	100%
Subordinate staff	1681	323	20%
TOTAL	**1689**	**331**	20%

Both primary data and secondary data were collected for the purpose of this study. Primary data was collected through the use of questionnaires. Secondary data was obtained from journals, business reports and other published materials of relevance to the study.

All questionnaires were administered individually by the researcher to all the respondents of the study. Care and control was taken to ensure that all the questionnaires issued to the respondents were received back, through maintaining a register of all the questionnaires and reconciling adequately. The researcher carried out a pilot study to pretest and validates the Questionnaire. Cronbach's alpha methodology, which is based on internal consistency, was used. Cronbach's alpha measured the average of measurable items and its correlation.and was checked against the standard threshold value of 0.7Expert opinion was sought by availing the research instruments to the expert to analyze; the advice given was used to improve the instruments. Quantitative data collected was analyzed by the use of descriptive statistics using Statistical Package for Social Scientists (SPSS) and presented through means, standard deviations, percentages and frequencies. Qualitative data was presented in bar charts, graphs and pie charts. Open ended questions and observations were analyzed qualitatively in narrative form and also presented inform of tables.

Data Analysis, Interpretations And Presentations

Descriptive and inferential statistics have been used to discuss the findings of the study, the study targeted a sample size of 331 respondents from which 319 filled in and returned the questionnaires making a response rate of 96.4%. This response rate was satisfactory to make conclusions for the study as it acted as a representative. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Based on the assertion, the response rate was excellent

Low Cost Leadership strategy and performance

Table 2: Company's products distribution

Distribution	Frequency(F)	Percent (%)
Selectively by a few distributors	83	26.0
Intensively by many distributor	100	31.4
Exclusively by the company	136	42.6
Total	**319**	**100**

The study sought to determine how the company's products are distributed, from the findings 42.6% of the respondents indicated that the company's products are distributed exclusively by the company, 31.4% indicated that the company's products are distributed intensively by many distributor whereas 26.0% of the respondents indicated that the company's products are distributed selectively by a few distributors. Most respondents agreed that that the company's products are distributed exclusively by the company. These findings concur with Davidson (2001) who found out that firms implementing low cost leadership should also have access to the high capital required to make significant investment in production assets as it will be producing in mass. This investment represents a barrier to entry that many firms with an eye to enter the industry may not overcome however with time other firms may be in a position to lower their costs as well. As technology improves the competitors may be able to leapfrog the production capabilities therefore eliminating the competitive advantage.

Differentiation strategy and performance

Table 3: Effect of differentiation strategy on performance of Mumias Sugar Company

Statements	Strongly agree	Agree	Moderate	disagree	Strongly disagree	Mean	Std deviation
The company has a strong and highly skilled product development team	78	205	25	9	2	1.76	0.26
The company has improved customer loyalty as a result of the differentiation strategy	98	201	17	2	1	1.67	0.24
The company has a strong sales team with the ability to successfully monitor the perceived strength of the differentiated product	99	204	10	5	1	1.83	0.28

The study sought to establish the extent to which respondents agreed with the above statements, from the study findings, majority of the respondents agreed that; the company has improved customer loyalty as a result of the differentiation strategy as shown by a mean of 1.67 and a standard deviation of 0.24, the company has a strong and highly skilled product development team as shown by a mean of 1.76 and a standard deviation of 0.26 and finally that the company has a strong sales team with the ability to successfully monitor the perceived strength of the differentiated product as shown by a mean of 1.83 and a standard deviation of 0.28, the finding above concurs with the study findings by Thompson, (2005), that for differentiation to succeed a firm must study the buyer's needs and behaviors in order to learn what they consider important and valuable. The desired features are then incorporated into the product to encourage buyer preference for the product. He further assert that successful differentiation has three aspects: commanding a premium price for product, increase sales because of additional buyers are won over by the differentiating features and gaining buyer loyalty to the brand.

Focused Strategy and performance

Table 4: Market Segmentation

Basis	Frequency(F)	Percent(%)
Lifestyle	21	6.6
Education level	38	11.9
Income level	126	39.4
Geographical location	78	24.5
Benefits sought	56	17.6
Total	**319**	**100**

The study sought to establish the basis under which the market is segmented, from the research findings, majority of the respondents as shown by 39.4% indicated that the market is segmented on the basis of income level, 24.5% of the respondents indicated that the market is segmented on the basis of geographical location, 17.6% of the respondents indicated that the market is segmented on the basis of benefits sought, 11.9% of the respondents indicated that the market is segmented on the basis of education level whereas 6.6% of the respondents indicated that the market is segmented on the basis of Lifestyle. This implies that the market is segmented on the basis of income level. The study also sought to establish how Mumias Sugar Company has established competitive advantage in the focused market from the findings the study established that to be successful in the long-term firm must select not more than one of the competitive strategies to avoid being "stuck in the middle" and not achieve any competitive advantage in the market. The finding above concurs with the study findings by Porter, (1985), he asserts that for a firm to succeed and post good results by using multiple strategies they must create separate business units for each competitive strategy. By separating the strategies into different units having different policies, management and cultures, a company is less likely to get "stuck in the middle".

Performance of Mumias sugar company

The study sought to establish the extent to which respondents agreed with statements on performance

Table 5: Statement relating to the performance of Mumias Sugar over the last 5 years

Statements	Strongly agree	Agree	Moderate	disagree	Strongly disagree	Mean	Std deviation
The company has achieved a remarkable increased Sales volume	5	2	25	85	202	1.81	0.23
The company has been operating Profitably	6	1	14	58	240	1.93	0.24
The company has consistently grown its market share	4	2	21	94	198	2.10	0.21
The company's share price in the stock market has appreciated over the last five years	7	3	24	68	217	2.07	0.26

The study sought to establish the extent to which respondents agreed with the above statements, from the study findings, majority of the respondents agreed that the company has not achieved a remarkable increased Sales volume as shown by a mean of 1.81 and a standard deviation of 0.23, the company has not been operating Profitably as shown by a mean of 1.93 and a standard deviation of 0.24, the company's share price in the stock market has not appreciated over the last five years as shown by a mean of 2.07 and a standard deviation of 0.26, The company has not consistently grown in its market share as shown by a mean of 2.10 and a standard deviation of 0.21. The finding above concurs with the study findings by McKeon, (2011), he asserts that in formulating a business strategy it is important to analyze a firm's current position in the industry, its internal strengths and weaknesses, opportunities and threats that exist in its external environment to determine realistic strategic choices open to it. A good strategy enables a firm to meet the unmet needs in the market thus building brand loyalty and acceptance in the market hence improved performance of the firm.

Conclusions

Based on the findings from low cost leadership strategy and performance the study concludes that firms have to continually search for cost reductions within its business processes by conducting a value chain analysis with value adding activities being retained or improved while non value adding activities eliminated or outsourced if they cannot be fully eliminated thus firms implementing low cost leadership should also have access to the high capital required to make significant investment in production assets as it will be producing in mass, thus the study concludes that low cost leadership strategy had a positive effect on the performance of Mumias Sugar Company.

Based on the findings from differentiation strategy and performance the study revealed that differentiation of the company products is crucial in developing unique products in the market, firms attempt to gain competitive advantage by increasing the perceived value of their products or services relative to the perceived value of other firms products or services and this is achieved through producing products that are unique relative to the market therefore the study concludes that differentiation strategy had a positive effect on the performance of Mumias Sugar Company.

Based on the findings from focused strategy and performance the study revealed that focused strategy positively affect the performance of Mumias Sugar Company, A firm using a focus strategy often enjoys a high degree of customer loyalty, and well established loyalty discourages other firms from competing directly thus acting as a barrier therefore firms that succeed in a focus strategy are able to tailor a broad range of product development strength to a relatively narrow market segment that they are well conversant with thus the study concludes that focus strategy positively affect performance of Mumias Sugar Company.

Recommendations

Based on the findings and conclusion the from low cost leadership strategy and performance the study recommends that there is need for Mumias Sugar Company to continually search for cost reductions within its business processes by conducting a value chain analysis with value adding activities being retained or improved while non value adding activities eliminated or outsourced if they cannot be fully eliminated as the study revealed that low cost leadership had a positive effect on performance of Mumias Sugar Company it would be imperative for the company to reduce number of sales and discount to enhance its profitability. This can be done by reducing cost of production thus offering its products at competitive prices in the market.

Based on the findings and conclusion the from differentiation strategy and performance the study also recommends that there is need for Mumias Sugar Company to further differentiate its products to succeed and be a head of its competitors the firm must study the buyer's needs and behavior in order to learn what they consider important and valuable as the study established that differentiation strategy is a crucial competitive strategy and positively affect performance of Mumias Sugar Company. This would be done through differentiating through logistical aspects like distribution and rebranding.

Based on the findings and conclusion the from focused strategy and performance the study further recommends that focused strategy positively affect the performance of Mumias Sugar Company, thus there is need for Mumias Sugar Company to further deepen its focused strategy through focusing on particular market segment, Market knowledge and competitor emphasis by producing products targeting specific segments of the economy that have posted considerable growth; middle class.

Recommendations for further studies

This research had intended to determine the effects of competitive strategies on performance of Mumias Sugar Company. Other researcher may focus on the relationship between competitive strategy adopted by market participants and financial performance of Sugar companies in Kenya.

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