International Journal of Advanced Research in Management and Social Sciences

ISSN: 2278-6236

Impact Factor: 7.065

ORGANISATIONAL CAPABILITIES AND PERFORMANCE OF SUGAR COMPANIES IN KENYA: A CRITIQUE

WILLIAM SOWA* MBA Student,Taita Taveta University

DR. KARIM OMIDO* Senior Lecturer, Taita Taveta University

ABSTRACT

Company performance is associated with many factors including the choice of strategy especially competitive advantages and expansion. The study is confined to the sugar industry which is a subsector in the agriculture industry whose operations are overseen by the Ministry of Agriculture (Mati andThomas, 2019). The purpose of this paper is to critique a paper that talks about how companies achieve or can achieve a competitive advantage in the sugar industry in Kenya. While many organizations are focusing onbecoming more competitive by effecting strategies, it becomes imperative to ascertain how they do this to perform, more particularly in the sugar industry. Some of these core competencies are understanding the technical know-how of a production process, establishing a good relationship between the suppliers and customers and having reliable production processes, factors which can give organizations competitiveness (Nyangi et al., 2015).Some of these challenges include obsolete technology, poor stewardship and political interference, and therefore forms an ideal context of the paper. The paper hence focuses specifically on sugar companies in western Kenya which forms the greatest single block within which most of the sugar companies are found. One of the main areas of interest in this paper is to analyze the contemporary strategic management issues.

KEYWORDS: *Organizational capabilities, core competencies, competitive strategies, firm performance, sugar companies in Kenya*

INTRODUCTION

Between 1990 and 2019, the sugar industry in Kenya has been in a severe crisis in terms of management and performance (Odek, Kegode, and Ochola, 2003). Some companies such as Chemelil, Kwale, and Mumias have been shut down so far in this industry, where they continuously experienced strikes, and political interference, out and in the nation's parliament. Mumias Sugar for instance, is among the companies which is no longer operational despite being a market leader in 2000. Sony Sugar Company, on the other hand, is still struggling and has even failed to do maintenance of its mills in the past five years (Odek, Kegode and Ochola, 2003). In this very period, the industry has been characterized with obsolete technology, low utilization abilities or capacities, mismanagement, poor stewardship, and chaos as well as the absence of political goodwill to deal with these issues. This is evident from farmers together with residents in the Western region who have been taking to the streets to call for government intervention in Mumias Sugar Company's situation where it has failed to honor its debts (Odek, Kegode and Ochola, 2003).

In this paper, these challenges which affect sugar companies in Kenya, particularly those associated with management, will be critiqued because it is one of the main areas of interest in this paper, a contemporary strategic management issue in the sugar industry in Kenya. The other area of focus will involve critiquing a paper that talks about how companies achieve or can achieve a competitive advantage in this industry.

The Contemporary Strategic Management Issues in Kenya's Sugar Industry

The case of Mumias Sugar is similar to those experienced in Chemelil and Kwale Sugar companies, which are all characterized with obsolete technology, mismanagement of funds, and lack of effective leadership as well as political goodwill. Mumias Sugar for instance, and similar to most failed companies in the country, have been reduced to a center for seeking political millage by politicians who often wish to capture particular voting blocs (Wafula, 2018). The discussion points us to the main issue, which according to me, is lack of better strategic management faced by the sugar companies in Kenya. Internally, the outgrower farms and sugar factories also have issues. Balance sheets created by the milling and sugar factories show massively accumulated losses and debts (Engineer, 2014).

According to the Kenya Engineer (2014), currently most sugar factories have an accumulated debt of more than 58 billion Kenyan shillings. Despite such challenges, there is an existing ready domestic market for sugar in Kenya (Engineer, 2014). However, there are also political factors which influence the decision-making process of the management in this industry, decisions such as those needed to buy new advanced production technologies to stop using the outdated and almost redundant old equipment. The influenced decisions have affected cane production seen through high production costs relative to sugar prices making the business a less profitable venture. In the face of stiff competition from imported sugar manufactured by factories with low production costs as well as the falling international prices of sugar, the issues seen in the sugar industry, which are related to strategic management, are varied (Odek, Kegode and Ochola, 2003).

First, management responsible for different factories in this industry has failed to curb high production costs. As a result, this has made it difficult for factories to compete favorably in a market that is chocking with cheap imported sugar produced by firms which incur low production costs. Additionally, management in this industry has no particular strategy of dealing with or reducing high burdens of debt, especially on the millers' part (Lwiki et al., 2013). For instance, most debt owed by the factories or milers to farmers who deliver cane but go unpaid for a long time.What is more, there exists debt culminating from government loans, as well as, debts from commercial banks including from the Sugar Development Fund. Furthermore, the industry has debt restructuring problems (Lwik et al., 2013).

This industry has no correct or efficient debt management plan to help them clean their balance sheets appropriately and to help them attract investors. It is noted that this sector has a debt portfolio of about 20 billion Kenyan shillings (Wanyande, 2001). They have failed to come up with ways to classify and analyze their debt portfolios to come up with better strategies to reschedule, write off and form trust companies to deal with or take up some debts for long-period servicing. Management in various firms in this industry have also failed to come up with accountability strategies which will ensure that those connected to debts accumulated through corrupt or unscrupulous means face justice or are held responsible/accountable (Wawire et al., 2006).

The management in have shown no efficient strategy or a plan to facilitate payment. From a personal opinion, these debts have largely hampered the sugar industry's growth, as it has led to the shutdown of companies such as Mumias Sugar, while Sony and Chemelil Sugar are currently struggling with similar debts with a combined worth of 1 billion Kenya shillings , while Sony Sugar alone owes farmers 552 million Kenyan shillings (Wafula, 2018).

Furthermore, the opinion in question is that the industry's management has been ineffective, and thus failing, but poetical disturbances and stuff competition from cheap sugar from Brazil has worsened the problem. Evidence shows that the sugar industry owes the sugar development fund up to 10 billion Kenyan shillings (Odek, Kegode, and Ochola, 2003). Because of these debts, firms such as Kwale, Chemeli, Mumias and Sony Sugar companies have become technically insolvent. As a result, factories have severe liquidity and cash flow problems (Odek, Kegode, and Ochola, 2003).

Another issue is the lack of proper timing as to when sugar cane should be harvested. This is a failure on the side of management and the millers. The companies have not offered farmers with training and learning opportunities and as such the farmers lack accurate data about the planting and harvesting season, and what to do to increase sugar cane yield and quality. As a result, they harvest low sucrose content cane which, when crushed produce sugar crystals with low sucrose content. This makes their sugar less preferred in the market because consumers consider it to be of low quality. This problem is also seen in selecting seed variety. These farmers often also choose a poor variety of seed that are not resistant to smut disease. The seed also have low sucrose content, and take long to mature. This is symptomatic of most factories in the Kenyan sugar industry not investing in Research and Development (R&D) (Wanyande, 2001). As a result, they lack evidence-based data to help them make the right decisions in terms of the type of seed variety to be chosen and the right harvesting time to make sure that quality is given precedence (Wanyande, 2001).

Concerning legal issues, the industry has been influenced by resistance to and poor implementation of the Sugar Act 2001 which is about the powers given to the parliament to offer regulation and development as well as promotion of the sugar industry for the establishment of functions and powers of the Kenya Sugar Board as well as for connected functions (Act, 2001). Factories in this industry have often failed to implement or poorly implemented this act resulting in a stalemate between different stakeholder, mainly farmers and the millers. Domestic retaining organizations and farmers in this industry have remained unprotected because of the lack of a reinforced legislative framework. For instance, there are no safeguards of local farmers from sugar imports. In terms of supply chain management,the industry is infested with poor infrastructure where most areas where the cane is grown arein a very bad shape (Wawire et al., 2006). The industry incurs high transportation costs. Transportation costs have been exacerbated by cane spillage. Besides cane spillage, they have insufficient trailers and tractors to facilitate transportation. The industry also relies on imported equipment from the UK, Germany, or France as the country is yet to have the capacity to manufacture such high tech machinery (Odek, Kegode and Ochola, 2003).

As a result, local factories remain to act as middlemen (outgrower companies have become middlemen and their deductions raise the production cost in the country), thus attaching large markup values adding even further to procurement costs. Lastly, there is no transparency in this industry seen through the lack of accurate data or public information about production costs. Data is also not provided to the public regarding the person or entity responsible for the importation and the amount being imported. These issues, which are linked directly to management, have seen significant sugar companies like Mumias Sugar Company fail (Odek, Kegode and Ochola, 2003).

In this journal (**Nyangi, O., Wanjere, M., Egessa, K., &Wekesa, M. (2015). Organizational capabilities and performance of sugar companies In Kenya. *International Journal of Management Research & Review*, 5(8), 845-863**), Nyangi et al. (2015) focused mainly on how organizations in the Kenyan Sugar Industry can attain competitiveness. In the sugar industry, though Mumias Sugar has faced a number of challenges, the company back in the period 2008/9 had effectively used its resources including sugar molasses and its machinery to produce electricity, and as well has used its big size to make a mark in the East African Sugar Industry (Nyangi et al., 2015).They highlight that companies which pay attention to acquiring a competitive edge often launch management strategies which give them this edge. As a result, there are key core competencies which they have highlighted as being central to this competitiveness. The competencies were crucial to building entrepreneurship spirit, relationship building, product development, culture, and enhance learning.

According to Nyangi et al (2015), there is a positive correlation between organizational capabilities as a core competence with a company's performance. In its entirety, I agree with what Nyangi et al (2015) found, and this is supported by Harrison et al (2001)'sassertions that resource complementarity is crucial to building a competitive edge, while Liwikiet al (2013) highlight that management practices especially of inventory are key to excellent financial performance, and Wanyande (2001) assert that the effective management of politics in the sugar industry are key to realizing improved performance. What Harrison et al (2001), Liwiki et al (2013), and Wanyande (2001) touch on as regards core competencies and performance are effective use and management of resources that is the core competencies, to become successful. Their research aimed to demonstrate the impact of a firm's capabilities on sugar company performance in Kenya.

They highlighted the argument by Hamel and Prahalad (1994), which states that core competencies make a substantial contribution to what is regarded as customer value. In this regard, both Hamel and Prahalad (1994) and Nyangi et al. (2015) highlight that competencies concern the skills which empower organizations to create customer benefit and fundamental value which results in customer loyalty. Through this study, Nyangi and colleagues (2015) strengthen the current knowledge about strategic management in the Kenyan Sugar Industry. Their research provides information for decision-makers in the industry on how they can attain competitiveness or competence benefits. As a result, their study is relevant for government agencies in the country and other parastatals as it can inform them on how to improve performance in the sugar industry the perspective of core competencies or competitiveness. The invaluable information offered by Nyangi et al. (2015) is particularly vital for top managers in sugar factories for bettering their performance and gaining a competitive edge.

Through a comparative research model which finds the relationship between the dependent and independent variables, Nyangi and colleagues (2015) analyzed the sugar industry in Kenya, with a particular focus on the western Kenya sugar belt and assessed the information using SPSS. I am of the notion that the researcher's use of comparative research in their study was effective as it allowed them to highlight distinctively the challenges which sugar companies in Kenya face. Through their descriptive research, they have demonstrated the importance of creating strategies of management that can put companies ahead of competition.

Nyangi et al. (2015) discussed various literature articles, which discuss most importantly, how to create strategies which can help firms to become competitive in the market. For instance, the work of Prahalad and Hamel (1990) is discussed. Nyangi et al. (2015) claim that the notion of core competency was introduced by Prahalad and Hamel (1990). Nyangi et al. (2015) say that the researchers described core competency as collective learning within a company about how to integrate various technology streams, how diverse skills of production can be coordinated and how to integrate efficient communication across different departments for improved performance in the organizations. I agree with the notion that the core competencies in the modern companies is how they can use the new emerging advanced production technologies to improve performance.

These researchers claim the core competency cannot diminish when used, unlike physical assets which can deteriorate over a period. The researchersargue that core competencies can be enhanced as they are continuously used and shared.Nyangi and colleagues (2015) also highlighted the argument of Hit, Hoskisson, and Ireland (2001) which shows that core competencies are not only important resources but also are capabilities which serves as a source of attaining competitive advantage. These researchers claim the core competencies are linked to organizational skills of operation. They say that core competency is the capabilities of companies to perform some productions functions in ways superior to competitors and which can result in better organizational performance. Nyangi et al. (2015) say that core competencies allow firms to adapt to the changing conditions within the competitive market environment to develop effective and efficient performance. Like Lear (2012), Nyangi et al. (2015) say that sustainable strategies of competitive advantage emerge from core competencies in the organization and are based or superior processes and routines which should be developed and nurtured further. I agree with these claims that core competencies are the critical operational skills for instance the technical know-how of a production process, core relationship between the suppliers and customers and reliable production processes, which allow organizations to have the competitive advantage as they allow them to adopt superior production functions.

These researchers further claim that core competencies are the things which an organization can do appropriately to provide customers with benefits. These are things which cannot be easily imitated by competitors and can be leveraged unto markets and products. Similar to the point noted by Mascarenhas (1998), Nyangi et al. (2015) say that core competency can range from technical to subject matter knowledge, reliable processes and a close relationship between suppliers and customers. These researchers say that these competencies may also include culture and product development. Nyangi and colleagues (2015) state that a better culture may be seen through employee determination and dedication. These individuals say that when these core competencies help organizations to gain long-term advantages, they are considered sustainable competitiveness. I believe that with unique core competencies, a company will stand-out in the market and their customers will benefit from their special talent.

CONCLUSION

Among the key competencies which Nyangi et al. (2015) evaluated is knowledge-based resources, learning orientation, market orientation, organizational culture, information technology abilities, innovation, and product development, labor relations, and relationship building as well as management of human resources. They say that when these resources are managed efficiently through better strategies, success can be achieved, and organizations can stay ahead of the competition. They found that organizational capabilities affect performance in companies positively with over 42.6% of organizational performance showing improved performance thanks to core competencies or better management strategies. I believe that in today's market, organizational culture plays a major role in their performance. How the employees relate with one another, with the management and the relationship between the organization and their customers is critical, the communication mode, and their vision and mission are all factors which can either make an organization a market leader or fail.

REFERENCES

ACT,S.(2001).Retrieved 27 November 2019, from http://kenyalaw.org/kl/fileadmin/pdfdownloads/Acts/SugarAct_No10of2001.pdf.

Engineer, K. (2014). Sugar industry in Kenya - Kenya Engineer. Retrieved 27 November 2019, from https://www.kenyaengineer.co.ke/sugar-industry-in-kenya/.

Hamel, G., & Prahalad, C. K. (1994). *Competing for the Future* (Harvard Business School Press, Boston, MA). McCarthy IP (2004), Manufacturing strategy understanding the fitness landscape.

Harrison, J. S., Hitt, M. A., Hoskisson, R. E., & Ireland, R. D. (2001). Resource complementarity in business combinations: Extending the logic to organizational alliances. *Journal of Management*, *27*(6), 679-690.

Lear, L. W. (2012). *The relationship between strategic leadership and strategic alignment in high-performing companies in South Africa*. University of South Africa.

Lwiki, T., Ojera, P. B., Mugenda, N. G., & Wachira, V. K. (2013). The impact of inventory management practices on financial performance of sugar manufacturing firms in Kenya. *International Journal of Business, Humanities and Technology*, *3*(5), 75-85.

Mati, B. M., & Thomas, M. K. (2019). Overview of Sugar Industry in Kenya and Prospects for Production at the Coast. *Agricultural Sciences*, 10(11), 1477-1485.

Mascarenhas, B., Baveja, A., & Jamil, M. (1998). Dynamics of core competencies in leading multinational companies. *California Management Review*, 40(4), 117-132.

Nyangi, O., Wanjere, M., Egessa, K., &Wekesa, M. (2015). Organizational capabilities and performance of sugar companies In Kenya. *International Journal of Management Research & Review*, 5(8), 845-863.

Odek, O., Kegode, P., &Ochola, S. (2003). *The Challenges and way forward for the sugar sub-sector in Kenya*. Friedrich Ebert Stiftung (FES), Nairobi.

Wanyande, P. (2001). Management politics in Kenya's sugar industry: Towards an effective framework. *African Journal of Political Science/Revue Africaine de Science Politique*, 123-140.

Wawire, N. W., Jamoza, J. E., Shiundu, R., Kipruto, K. B., &Chepkwony, P. (2006). Identification and ranking of zonal sugarcane production constraints in the Kenya sugar industry. *Kenya Sugar Research Foundation (KESREF)*, 82.

Wafula, P. (2018). Sugar firms face slow, painful death: The Standard. Retrieved 27 November 2019, from https://www.standardmedia.co.ke/article/2001275224/politics-of-sugar-huge-debts-lack-of-cane-kill-once-thriving-sector.