STRATEGIC RESPONSES TO COMPETITION: A CASE OF CONTRACTED SMALL SCALE VEGETABLE FARMERS IN MACHAKOS DISTRICT

By

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DECLARATION

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

Signed...................................... Date...16/10/2008

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D61/P/7146/2006

This project has been submitted for examination with my approval as university supervisor.

Signed...................................... Date.....................

Jeremiah Kagwe

Department of Business Administration

DEDICATION

To all of you who made me what I am today

ACKNOWLEDGEMENT

I thank the Almighty God for the life given.

Secondly, I acknowledge my family and especially my wife Edith and baby Caleb for being beside me all the way. Your immeasurable support and encouragement has seen me through the entire process of study.

I also acknowledge my supervisor, Mr. Jeremiah Kagwe, who guided me throughout the research period.

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ABSTRACT

Though a business does not want competition from other businesses, inevitably most will face a degree of competition. The amount and type of competition depends on the market the business operates in. A business could react to an increase in competition by cutting prices (but can reduce profits), improving quality (but increases costs), spend more on promotion, and cutting costs (Porter, 1998). Some may opt to product improvement, divestiture, diversification, entry into new markets or even merging or buying out competitors. Studies have shown that the size of a firm has an effect on the way it responds to competition. Most of these studies show support for use of niche strategies in small firms (O'Gorman, 2001; Fiegenbaun and Karni, 1991; Lee et al, 1982). These studies have shown that small firms use niche strategies to respond to competitive pressures. The objectives of this study were to determine the competitive pressures facing small scale contracted vegetable farmers in Machakos District and to determine the strategic responses employed by them to deal with competitive challenges.

This was a descriptive survey. The research population consisted of all the small scale vegetable farmers contracted by Homegrown Ltd in Machakos District There are 120 such farmers in the district. All the 120 farmers were selected for the survey. This being a census survey, no sampling technique was employed to select the sample size. In this study, emphasis was given to primary data. The primary data was collected using a semi-structured questionnaire. Data collected was analyzed based on descriptive statistics. The descriptive statistics that were used here included the mean scores and percentages. The results were then presented using tables and figures. The Statistical Package for Social Sciences (SPSS) aided in the analysis.

The study found that the farmers contracted by Homegrown have been facing a myriad challenges brought about by competition. The salient challenges are quality of production, loyalty issues, liberalization of trade, and lack of bargaining power. The farmers have responded to these challenges in a number of ways. The farmers have had to strive and offer quality produce in the market as a starting point. The farmers have also had to compete for the same buyers as other target specific markets in order to create a market for their produce. As other farmers demand better prices for their products, some have resorted to targeting other farms when the prices are better elsewhere. This is what has expounded the switching behaviour among the farmers.

The study recommends that the cost of inputs be subsidized by the Government in order to reduce the costs for the farmers. This, given that the farmers have less say in pricing their produce, will help them fetch a good margin. The Government should also come to the rescue of farmers by setting up a minimum price that the farmers need to be paid for their produce so as to shield them from the large companies out to use them.

The Government of Kenya needs to sensitize farmers on the need of having and honoring legal contracts in order to avoid hurting their relationships with reliable partners.

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Strategic Responses and Competition

Strategy development has received renewed attention from both practitioners and scholars as environments become more competitive (Bettis and Hitt 1995) and as academics and consultants advocate the necessity of enhancing strategic thinking within firms (Hamel and Prahalad 1994). One specific modality of strategy development, namely strategic responses, has received significant research attention Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. Strategy answers the fundamental questions of 'where do we want to go? ; Where are we now? ; and how do we get there?' Three areas of a company strategy are important in identifying the responses of a firm to its environmental challenges. These include: objective setting which involve long term and short term goals; the vision and mission of the company; strategic directions which involve what business activities should the company concentrate in and where; competitive strategy where after considerations of the firm's competitive strengths and weaknesses vies-a-vi competition and customer needs, the company establishes a position of competitive advantage (Lowes 1994).

Competition is a core concept in strategic management (Daniels, Johnson and de Chernatony, 1994). Porter (1980) highlighted the need for an analysis of competitors' strategies in order to better understand competition and to aid in formulating and reformulating strategy. Top managers' understanding of their competitive systems influences their decisions and acts, and in turn shapes their environment (Weick, 1979).

Companies respond strategically to environmental factors in order to be sustainable (Hamel and Prahalad, 1993). Increased competition threatens the attractiveness of an industry and reduces the profitability of the players. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the environment Markets are changing all the time. It does depend on the type of product the business produces, however a business needs to react or lose customers. Some of the main reasons why markets change rapidly are that customers develop new needs and wants, new competitors enter a market, new technologies meaning that new products can be made, a world or countrywide event happening e.g. war, and government introducing new legislation e.g. increases minimum wage.

As Zahra and Pearce (1990) have indicated, there is considerable theoretical and practical importance in further exploration of the processes that influence decision choices of dominant individuals within an organisation. One situation in which the views of an individual (as opposed to those of a political grouping) are likely to be dominant is that of the small business owner-manager, suggesting that studying samples of entrepreneurs could be a starting point for developing more psychological models of strategic choice.

Porter (1985) states that competitive strategy must grow out of a sophisticated understanding of the five forces with the ultimate aim of developing competitive strategies to cope with, and possibly, to influence or change these forces in favour of a firm. The intensity of rivalry, which is the most obvious of the five forces in an industry, helps determine the extent to which the value created by an industry will be dissipated through head-to-head competition. The most valuable contribution of Porter's "five forces" framework in this issue may be its suggestion that rivalry, while important, is only one of several forces that determine industry attractiveness. This force is most likely to be high in those industries where there is a threat of substitute products, and existing power of suppliers and buyers in the market

Both potential and existing competitors influence average industry profitability. The threat of new entrants is usually based on the market entry barriers. They can take diverse forms and are used to prevent an influx of firms into an industry whenever profits, adjusted for the cost of capital, rise above zero. In contrast, entry barriers exist whenever it is difficult or not economically feasible for an outsider to replicate the incumbents' position (Porter, 1980b; Sanderson, 1998). The most common forms of entry barriers, except intrinsic physical or legal obstacles, include: economies of scale; cost of entry; distribution channels and cost advantages not related to the size of the company.

The threat that substitute products pose to an industry's profitability depends on the relative price-to-performance ratios of the different types of products or services to which customers can turn to satisfy the same basic need. The threat of substitution is also affected by switching costs that is, the costs in areas such as retraining, re-tooling and re-designing that are incurred when a customer switches to a different type of product or service.

Buyer power is one of the two horizontal forces that influence the appropriation of the value created by an industry. The most important determinants of buyer power are the size and the concentration of customers. Other factors are the extent to which the buyers are informed and the concentration or differentiation of the competitors. Kippenberger (1998) states that it is often useful to distinguish potential buyer power from the buyer's willingness or incentive to use that power, willingness that derives mainly from the "risk of failure" associated with a product's use. This force is relatively high where there a few, large players in the market, as it is the case with retailers and grocery stores.

Supplier power is a mirror image of the buyer power. As a result, the analysis of supplier power typically focuses first on the relative size and concentration of suppliers relative to industry participants and second on the degree of differentiation in the inputs supplied. The ability to charge customers different prices in line with differences in the value created for each of those buyers usually indicates that the market is characterized by high supplier power and at the same time by low buyer power (Porter, 1998). Bargaining power of suppliers exists in situations where the switching costs are high (switching from one Internet provider to another); high power of brands (British Airways); possibility of forward integration of suppliers (brewers buying bars) and fragmentation of customers (not in clusters) with a limited bargaining power (Gas/Petrol stations in remote places).

The nature of competition in an industry is strongly affected by suggested five forces. The stronger the power of buyers and suppliers, and the stronger the threats of entry and substitution, the more intense competition is likely to be within the industry. However, these five factors are not the only ones that determine how firms in an industry will compete – the structure of the industry itself may play an important role. Indeed, the whole five forces framework is based on an economic theory known as the "Structure-Conduct-Performance" (SCP) model: the structure of an industry determines organizations' competitive behaviour (conduct), which in turn determines their profitability (performance). In concentrated industries, according to this model, organizations would be expected to compete less fiercely, and make higher profits, than in fragmented ones. However, as Haberberg and Rieple (2001) state, the histories and cultures of the firms in the industry also play a very important role in shaping competitive behaviour, and the predictions of the SCP model need to be modified accordingly.

Whilst most of the literature concentrates upon focused differentiation, a small firm may attain a cost advantage in a market segment by exploiting specific knowledge, expertise and business practices (Cooper et al., 1986). Indeed, the study by Reid et al. (1993) concludes that some small firms attempt to compete by adopting a strategy of cost focus. Such a strategy may be attractive if the impact of economies of scale is weak implying that large firms do not have an obvious cost advantage arising purely from scale. O'Farrell et al. (1993, p. 41), for example, note that: 'services in general, and business services in particular, present less scope for achieving economies of scale...' than manufacturing. The extent of economies of scale in a market may thus be an important factor in influencing the strategies available to small firms wishing to compete against their larger rivals.

1.1.2 Homegrown (Kenya) Limited Contracted Vegetable Farmers in Machakos

Homegrown (Kenya) Limited is a fresh produce export company based in Nairobi and has for years outsourced vegetables from contracted small-scale farmers in Machakos district. One hundred and twenty contracted farmers are issued with vegetable seeds every calendar week by Homegrown (Kenya) Limited The farmers plant the seed in the week they are issued with the seeds and harvestings of the already mature crop is done daily.

Homegrown (Kenya) Limited has posted technical assistants who offer necessary agronomic guidance to the farmers on issues such as crop husbandry, technical requirements for good agricultural practices (GAP's) and food safety standards. Such standards include EUREPGAP, Tesco Natures Choice and Mark & Spencer's field to folk.

The hundred and twenty farmers are organised in groups of twenty and thus the region has six groups in total. The groups are led by an elected committee of members who are responsible for day to day running activities of the group. Each group has a produce collection shed where all the farmers deliver their fresh harvested products. Further grading and packaging in crates is done on the produce while awaiting delivery via Homegrown (Kenya) Limited three ton capacity trucks that collect the produce daily. The committee through the approval of all group members prepares planting and harvesting schedules for all the members. Each shed has a clerk whose work is mainly to update daily records, cleaning the shed, latrine, charcoal cooler and general bookkeeping for the group.

Homegrown (Kenya) Limited organizes all necessary technical training required for the general compliance to its code of practice and those of the customers to which it exports its products. The trainings are offered to the farmers free and are issued with certificates. The trainings include those of hygiene training, cholinesterase tasting, health and safety, fertilizer application, pest monitoring and control, integrated pest management, book keeping. Homegrown (Kenya) Limited makes daily trips for produce collection from the group centers (sheds) and makes up payments for the farmers on weekly basis and on contract prices.

Although there exists legal and binding contracts between the farmers and Homegrown (Kenya) Limited, there are various economic challenges that make some members of the group or the whole group of farmers breach the contracts. This happens regardless of the high costly inputs and efforts that the company has put in developing the groups up to and including paying for the certification fees and coordinating all the GAPs audits.

There is a serious loss of loyalty when the products market prices either goes above or below the contract price. When the prevailing market prices go up above the contact prices, Homegrown (Kenya) Limited looses a lot on product volumes as some farmers chose to sell secretly to the open market rather than deliver their produce to the shed for collection. When the market prices fall below the contract prices, Homegrown (Kenya) limited experiences a serious glut due to the farmers buying produce from their neighbors to add to their daily harvested quantities, which they finally deliver to the company.

1.2 Statement of the Research Problem

Though a business does not want competition from other businesses, inevitably most will face a degree of competition. The amount and type of competition depends on the market the business operates in. A business could react to an increase in competition by cutting prices (but can reduce profits), improving quality (but increases costs), spend more on promotion, and cutting costs (Porter, 1998). Some may opt to product improvement, divestiture, diversification, entry into new markets or even merging or buying out competitors.

Studies have shown that the size of a firm has an effect on the way it responds to competition. Most of these studies show support for use of niche strategies in small firms (O'Gorman, 2001; Fiegenbaun and Karni, 1991; Lee et al, 1982). These studies have shown that small firms use niche strategies to respond to competitive pressures.

Locally, studies have been done on strategic responses in small businesses in Kenya. For instance, Kawino (2007) did a study to establish how Kenyan small and micro-enterprises respond to their environmental opportunities. The study focused on small enterprises dealing in metal works in Gikomba Jua-Kali area in Nairobi. Kimani (2007) did a study to determine the competitive challenges that small scale information technology (IT) firms face, how the challenges affect them, and the strategies they adopt to respond to the competitive challenges. The focus of the study, the 11 firms, differs from the focus of the present study. Nduva (2007) sought to determine the effectiveness of the approaches used by development programs to provide business development services (BDS) to the MSEs in Makueni district in an effort to reduce poverty and and create employment opportunities. In a more relevant study to the current one, Mburu (2007) sought to establish the strategic responses that the horticultural companies have adopted in the face of current environmental challenges. The study targeted the firms registered under Fresh Produce Exporters Association of Kenya (FPEAK). This study differs from the present study in terms of the target population as well as the concept that was covered.

Up to the time of this study, there was no under study done on small scale vegetable farmers in Machakos District. The above studies differ from the present study in terms of their context as well as the conceptual focus. Given the scenario in terms of the switching behavior of contracted small scale vegetables farmers, this study fills in the gap in literature by identifying how they react to competitive pressures.

1.3 Objectives of the Study

The objectives of this study are:

i. To determine the competitive pressures facing small scale contracted vegetable farmers in Machakos District

ii. To determine the strategic responses employed by small scale contracted vegetable farmers to competitive challenges.

1.4 Importance of the Study

This study will be important to Homegrown (Kenya) Limited and all other horticultural firms in Kenya by giving them first hand information of how contracted small scale farmers respond to competitive challenges. This will help in drawing up contracts as well as effecting them.

The study will also be important to the farmers as they will be able to understand what competitive pressures affect them as contracted small scale vegetable farmers.

The policy makers in the agricultural sector will also find the results of this study useful for purposes of enacting policies that will help steer the industry to greater heights.

Researchers, academics and student will also find this study a useful guide for purposes of further studies on the same area or for discussions on the issues outlined in the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on taxonomy of strategies, strategy in small firms, competitive environment and the relationship between competition and strategy.

2.2 Taxonomy of Generic Strategies

The literature on strategy has focused a great deal of attention in the quest for taxonomy of generic strategies (Miller & Dess, 1993). A generic strategy can be seen as a broad categorization of strategic choices with ample applicability across industries and organisational forms (Herbert & Deresky, 1987). Miles & Snow (1978) have produced a typology of business-level strategies. As opposed to corporate-level strategy, i.e., decisions related to what businesses should the firm be in, business-level strategy is related to how the organisation competes in a given business (Hambrick, 1983). Miles and Snow (1978) proposed that firms in general develop relatively stable patterns of strategic behaviour in order to accomplish a good alignment with perceived environmental conditions. Their typology involves four strategic types summarised as defenders, prospectors, reactors, and analyzers.

Defenders are organisations which have narrow product-market domains (Miles and Snow, 1978). Top managers in this type of organisation are highly expert in their organisation's limited area of operation but do not tend to search outside of their domains for new opportunities. As a result of this narrow focus, these organisations seldom need to make major adjustments in their technology, structure, or methods of operation. Instead they devote primary attention to improving the efficiency of their existing operations.

Prospectors are organisations that almost continually search for market opportunities, and they regularly experiment with potential responses to emerging environmental trends (Miles and Snow, 1978). Thus, these organizations often are the creators of change and uncertainty to which their competitors must respond. However, because of their strong concern for product and market innovation, these organisations usually are not completely efficient.

Analyzers are organisations that operate in two types of product-market domains, one relatively stable, the other changing (Miles and Snow, 1978). In their stable areas, these organisations operate routinely and efficiently through use of formalised structures and processes. In their more turbulent areas, top managers watch their competitors closely for new ideas, and then they rapidly adopt those which appear to be the most promising.

Reactors are organisations in which top managers frequently perceive change and uncertainty occurring in their organisational environments but are unable to respond effectively. Because this type of organization lacks a consistent strategy-structure relationship, it seldom makes adjustment of any sort until forced to do so by environmental pressures (Miles & Snow, 1978).

Central to Miles and Snow's model is the specific relationship between the four strategic types and environment. Coherent with the environment enactment process, defenders will carve a niche in the market where stability can be found even in more dynamic industries, whereas prospectors will be the source of instability in an industry by constantly producing innovations. Hambrick (1983) found that, as predicted by Miles and Snow's model, prospectors tend to thrive in innovative, dynamic environments, capitalising on growth opportunities, whereas defender type firms were most prevalent in stable, mature, and non-innovative industries.

Finally, Miles and Snow have proposed the analyzer strategy as a unique combination of the prospector and defender types. They have put these two types of organisation at opposite ends of a continuum of adjustment strategies, with the analyzer being somewhere in the middle of this continuum as a viable alternative strategy. Miles and Snow argue that three of these strategic types are stable forms of organisation, namely, defender, analyzer and prospector firms. If there is an alignment between chosen strategy and organisational structure and processes, than any of these strategies may lead the organisation to be an effective competitor in a particular industry. However, a non-alignment between strategy and structure, will result in the firm being an ineffective competitor in the industry, characterising unstable forms of organisation which Miles and Snow have termed Reactors.

2.3 Strategy in Small Firms

Small agricultural producers in developing countries increasingly seek to participate in global markets. This participation is an important driver of economic and social progress throughout the developing world (Rock, 2002). Trade liberalization resulting from contraction of government programs has fueled this growth and, at the same time, resulted in limited support for small farmers as they attempt to navigate increasingly complex and global supply chains (Van Der Meer, 2006). Thus, from both the perspective of economic development and global supply chain optimization, it is important to identify mechanisms that assist smaller farmers in their transition to becoming export market players. In this paper, we examine one aspect of the channel navigation problem: making successful links with foreign importers.

Poverty alleviation has driven agricultural support programs in the developing world With as many as four-fifths of rural residents living in poverty (World Bank, 2005) and relying principally on agriculture, the rationale for such programs was clear.

Unfortunately, the programs were also expensive, viewed as incompatible with globalization and were largely dismantled during the 1990s.

The traditional focus of the strategic management literature has been the large corporation and relatively little attention has been devoted to the small firm (Hunger and Wheelen, 1993). However, the decline of large scale manufacturing and the resurgence of the small business sector has led to a renewed interest in the mechanisms by which small firms compete and grow (Goffee and Scase, 1995). Typically, analysis of the small firm has involved utilising frameworks and concepts initially developed for large firms whilst recognising the limitations of these frameworks within the small firm context (Lee et al., 2001). In particular, many contributions have adapted the classical, rational model of strategic planning that has been a dominant strand in the general strategy literature (Botten and McManus, 1999; O'Gorman, 2000). This approach argues that the appropriate strategies for any firm can be deduced on the basis of logical, formal analysis utilising a range of prescribed tools, techniques and processes (Lynch, 2000). For example, Hunger and Wheelen (1993, p. 381) state that: 'the strategic management model…is just as useful to small and entrepreneurial companies as it is to large business organisations…, [although] …the strategic decision-making process… [may need a] …few adjustments…'

The classical approach is exemplified by Porter (1985) and much of the discussion of small firm strategy is based upon the Porter approach (Burns and Harrison, 1996). In this framework, competitive advantage is hypothesized to derive from product market positions based on either cost leadership (selling a standard product at a lower cost than competitors) or product differentiation (selling a product that is unique in some way and therefore commands a higher price). These two strategies can also be distinguished according to their competitive scope. Thus, the strategies may operate over the whole market or be focused upon a particular segment. Porter argues that successful firms should generally adopt a clear strategy based upon cost leadership, differentiation or focus and will rarely succeed by trying to combine the approaches.

The literature that has made use of the generic strategy framework has generally argued that small firms should focus upon particular market niches rather than compete across a broad market (O'Gorman, 2000). In surveying the literature, Fiegenbaum and Karni (1991) conclude that support for market niche strategies has become generally accepted, whilst Lee et al. (2001, p. 148) note that advocacy of such strategies is the "conventional wisdom". Moreover, Birley (1982) argues that the restricted range of products/markets in which a small firm operates is a fundamental difference between small and large firms. The arguments against broad strategies are based upon the view that small firms are resource-constrained and cannot make the investments required to sustain competitive advantage across a wide market.

Broad cost leadership strategies may be particularly problematic as small firms are unable to achieve economies of scale, economies of scope (transferring assets and experience across market segments) or raise the capital required to invest in cost reducing technology (Burns and Harrison, 1996). Similar resource constraints may also face broad differentiation strategies, as these often require substantial investment in product innovation and marketing the uniqueness of the products that are developed. Moreover, even if small firms can establish competitive advantage across a broad market, this may be difficult to sustain as it is vulnerable to erosion by larger firms with access to greater resources and the ability to launch and sustain aggressive competitive moves (Lee et al., 2001).

In contrast to broad strategies, focus strategies may be more realistic for small firms as they require a more limited commitment of resources, and entry barriers to small market segments may be relatively low (Wright et al., 1995). Such strategies may also conform to the objectives of many small firm managers, which are typically more concerned with short-term survival and maintenance of independence than growth (Storey and Sykes, 1996; Storey, 1994). Moreover, small firms may have a competitive advantage in operating in specific market segments as a consequence of their streamlined decision-making processes, which enable them to respond more flexibly and rapidly to the needs of individual consumers and market conditions (d'Amboise and Muldowney, 1988). Chen and Hambrick (1995) have concluded that this relative advantage also reflects the liability that large firms suffer due to structural complexity, bureaucracy and unwieldy information-processing systems.

Arguments in favour of focus strategies tend to concentrate upon focused differentiation, emphasising that this strategy allows the small firm to exploit specialised knowledge of a particular geographical area, product type or type of customer (Burns and Harrison, 1996; Carter et al., 1994). A number of empirical studies support this contention including a 3i European Enterprise Centre (1994) survey of small European companies and a study of Scottish firms by Reid et al. (1993). In a survey of the literature, Storey (1994) concludes that a consistent finding is that successful small firms make a conscious decision to occupy particular market niches where they can exploit quality advantages. However, whilst differentiation strategies are often discussed in terms of the small firm offering high quality, Cooper et al. (1986, p. 251) argue that small firms may achieve differentiation by: '... subtracting a feature or service included by large firms in their standard offering but which a segment of the market does not value highly.'

Such a strategy may be particularly attractive to small firms if larger firms are reluctant to compete in low quality market segments as they wish to sustain an existing reputation for quality (O'Farrell et al., 1993). This may be of particular importance when reputation is an asset that is easily transferable across market segments (Nayyar, 1990).

Whilst much of the discussion concerning small firms explicitly or implicitly uses Porter's generic strategies, this approach has been subject to considerable criticism (Cronshaw et al., 1994). One common view is that many successful firms adopt mixed strategies rather than one of the generic strategies advocated by Porter (Botten and McManus, 1999). Moreover, others have argued that the Porter approach oversimplifies the choices facing the firm and have developed more complex and detailed sets of strategic choices (Matthur, 1992). Other criticisms of the Porter approach reflect fundamental differences of opinion amongst various alternative schools of thought (Devlin, 1997). For example, resource-based approaches argue that analysis should focus upon the key resources that a firm can exploit to attain competitive advantage rather than product market positioning (Kay, 1993). In contrast, other approaches view strategy as an emergent process that develops on a trial and error process without knowledge of precise objectives or outcomes (Botten and McManus, 1999). More recently, theorists using game theory approaches have argued that one aspect of the strategy problem facing small firms which is absent from most of the literature is the impact of the strategies adopted by competitors (Lee et al., 2001). According to this view, small firms cannot determine their strategy in isolation from the strategies being undertaken by larger firms in the market. Whilst this is obviously the case when the two types of firm are competing in similar market segments, it may also be important when no direct competition exists as there is always a threat of entry into new segments. Thus, it is important for studies to examine the strategies of both small and large firms rather than concentrating upon the small firm in isolation.

There is clearly considerable merit in many of the criticisms of Porter and a variety of different approaches could be adopted to analyse the small firm. However, Bishop and Megicks (2002) broadly adopt the product market positioning approach in their study. They argue that given the relative lack of existing detailed theoretical analysis of strategy issues within the small firm, the simplicity of the approach is useful in clarifying basic issues and setting the context for further research. It could also be argued that a relatively simple framework is appropriate as small, narrowly-focused firms typically face relatively simple strategic choices. Indeed, Hannan and Freeman (1988) argue that complex and detailed strategies are a distraction for all but the largest companies, as only these concerns can use such strategies to achieve and sustain the competitive advantage that makes an investment in such planning worthwhile.

2.4 Competitive environment

A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2002). Sustainable competitive advantage is born out of core competencies that yield long term benefit to the company. Prahalad and Hamel (1990) define a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics one It provides access to a wide variety of markets, secondly It increases perceived customer benefits and lastly it is hard for competitors to imitate.

Strategic management can be simply defined as the management of the process of strategic decision-making. It requires acquiring a proactive mindset that concentrates on the following: first where the firm is now, secondly where the firm wants to go and finally how to get there. This involves carefully defining what business positions to stake out, financial and strategic outcomes to achieve (Pearce and Robinson, 2007).

A good company strategy has to have at least four components: Scope -it has to define companies and business i.e. the present and planned interactions of the company with its environment, Competence-this is an indication of the level and patterns of the company's. Competitive advantage-the unique position a company will develop vis-à-vis its competitors through its resource deployments and scope decisions, Synergy the joint effects that are sought from the company's resources deployment and the company scope decisions. It is paramount that a company has to achieve a fit with its environment for it to succeed (Kottler, 1997).

2.5 Strategic Responses and Competition

Organisations respond to environmental factors and one of the environmental influences to a business arises from competition. They have to respond strategically to environmental factors in order to be sustainable. Increased competition threatens the attractiveness of an industry and reduces the profitability of the players (Hamel and Prahalad, 1993). It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the environment.

Firms therefore focus on gaining a competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core strengths, firms are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage (Hamel and Prahalad, 1993). According to Johnson and Scholes (1997), core strengths are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains.

Markets are changing all the time. It does depend on the type of product the business produces, however a business needs to react or lose customers. Some of the main reasons why markets change rapidly are that customers develop new needs and wants, new competitors enter a market, new technologies meaning that new products can be made, a world or countrywide event happening e.g. war, and government introducing new legislation e.g. increases minimum wage.

Though a business does not want competition from other businesses, inevitably most will face a degree of competition. The amount and type of competition depends on the market the business operates in (Hamel and Prahalad, 1993). A business could react to an increase in competition (for instance, a launch of rival product) by cutting prices (but can reduce profits), improving quality (but increases costs), spend more on promotion (such as do more advertising, increase brand loyalty; but costs money), and cutting costs (Porter, 1998), for instance use cheaper materials. Some may opt to product improvement, divestiture, diversification, entry into new markets or even merging or buying out competitors (May et al., 2000). A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2002). Sustainable competitive advantage is born out of core strengths that yield long term benefit to the company.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This research problem was studied through the use of a descriptive survey. Descriptive research portrays an accurate profile of persons, events, or situations (Robson, 2002). Surveys allow the collection of large amount of data from a sizable population in a highly economical way. It allows one to collect quantitative data which can be analysed quantitatively using descriptive and inferential statistics (Saunders et al., 2007) Therefore, the descriptive survey was deemed the best strategy to fulfill the objectives of this study.

3.2 Population

For the survey, the research population consisted of all the small scale vegetable contracted farmers by Homegrown Ltd in Machakos District. There are 120 small farmers contracted by the company in the area. All the 120 farmers were selected for the survey. This being a census survey, no sampling technique was employed to select the sample size.

3.3 Data Collection

In this study, emphasis was given to primary data. The primary data was collected using a questionnaire. The questionnaire was semi-structured with both open as well as closed questions. This facilitated the collection of both qualitative and quantitative data. The questionnaire was structured in thee sections named Section A, Section B, and Section C. Section A of the questionnaire sought responses to the attributes of the respondents and the farms. Section B sought to establish the competitive challenges facing the farms. Section C established the response strategies used by the farms to respond to competitive pressures. The respondents were the owners/managers of respective farms. The questionnaires were self-administered by the researcher.

3.4 Data Analysis

Data collected was analyzed using mean scores and percentages. The results were then presented using tables and figures. The Statistical Package for Social Sciences (SPSS) aided in the analysis.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the findings of the study. A survey of 120 farmers was to be done but after administration of the questionnaires, 100 were collected and found fit for analysis. This represents a response rate of 83.3% which is a high response rate. The results can therefore be generalized to the entire population.

4.2 Sample Characteristics

The study found that most of the farmers had had a contract with Homegrown (Kenya) Limited for a period of 3-5 years (54%). Another 22% had been dealing with Homegrown (Kenya) Limited for a period between 5 and 7 years. The rest of results on how long the farmers had been contracted vegetable farmers for Homegrown (Kenya) Limited are presented in Figure 1.

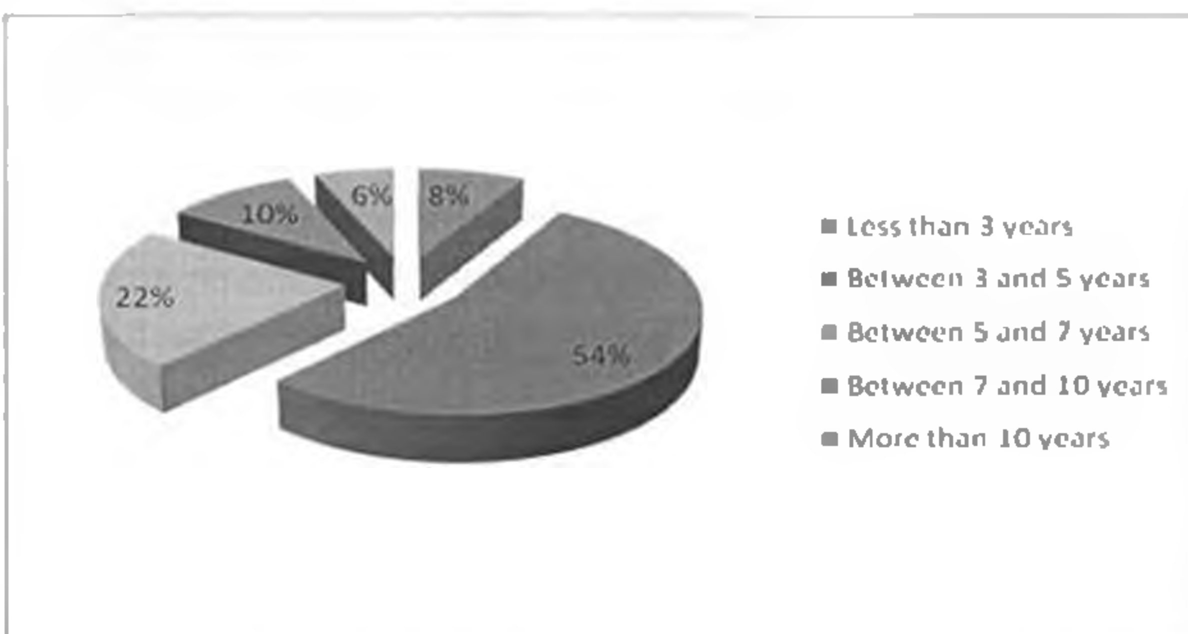

Figure 1: Period of Contract

On the length of time the respondents had been vegetable farmers, the study found that 50% had been farmers for a period between 7 and 10 years. 12% of the respondents been farmers for more than 10 years. The rest of the analysis is summarised in Figure 2.

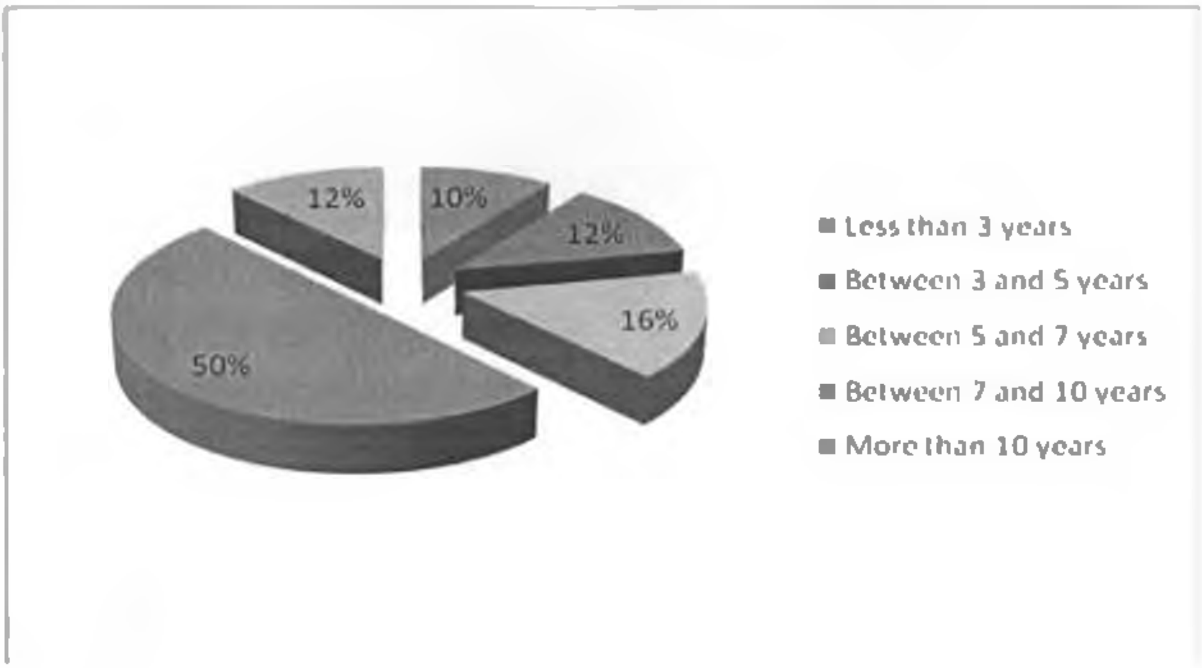

Figure 2: Period of Farming

The study found that 66% of the respondents had not been contracted by any other horticultural farm before Homegrown (Kenya) Limited. Only 34% had been earlier contracted by other horticultural firms. This analysis is summarised in Figure 3.

Figure 3: Contract with Other Farms

Those who had been earlier contracted by other farms explained that they moved to Homegrown (Kenya) Limited because of its better and prompt pay structure and the fact that the firm offers written contracts to the farmers it contracts. 96% of the farmers have written contracts with the Homegrown (Kenya) Limited. Only 4% of the farmers do not have written contracts as shown in Figure 4.

Figure 4: Existence of Written Contracts

Most of the respondents would not contemplate moving to another farm other than Homegrown (Kenya) Limited anytime from now as cited by 88% of the respondents. 12% would switch to other firms anytime. This is summarised in Figure 5.

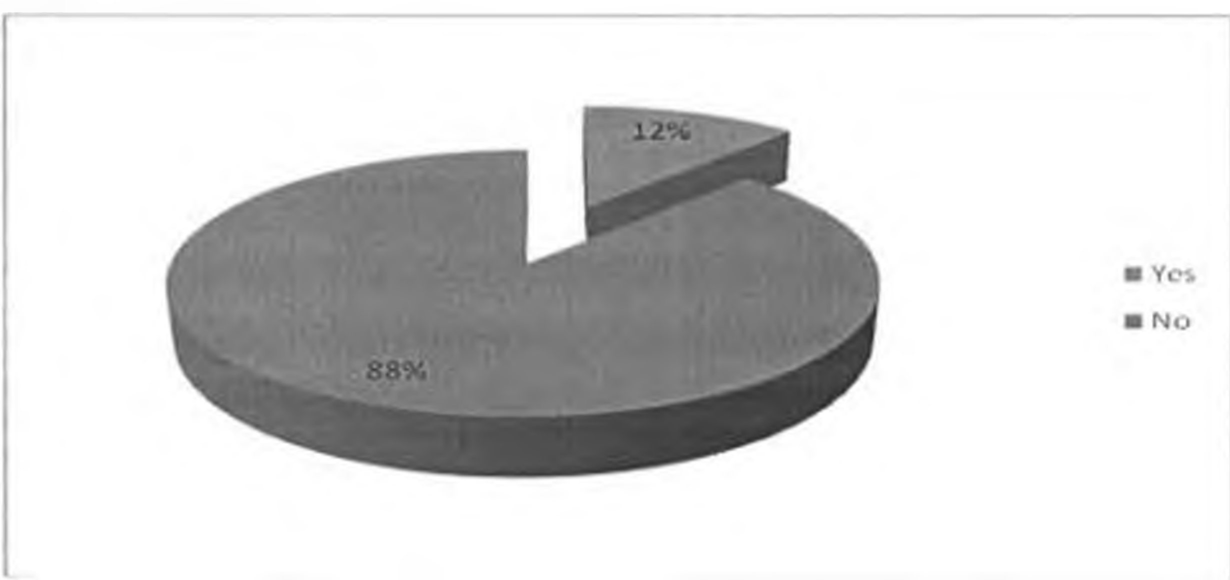

Figure 5: Likelihood to Switch

Those who would not switch cited that the written contracts they have with the firm acts as security to get funds from the banks. They also cited reliable payment system with the company. The payments are also weekly and regular hence a better choice than other farms whose payments are not regular. The collection system at Homegrown (Kenya) Limited was also cited to be a good one.

4.3 Competitive Challenges Facing Vegetable Farmers

The respondents were to state the extent to which their farms had faced several challenges. The results are presented in Table 1. Rivalry was found to be a moderate challenge as shown by the rankings on cheap labor (3.48) and low pricing (3.48).

The only challenge emanating from new entrants in the industry was imitations, which was found to be a moderate challenge (3.94) as new farmers grow the same plants grown by the older farmers.

The challenge of substitutes was found to be expounded by the quality of vegetables (4.54) and trade liberalization (3.88) Substitutes mean that the quality of their vegetables has to be high in the market or else Homegrown (Kenya) Limited will have to make a choice to go for the others. With the liberalization of economy, the farmers have had to compete with the new entrants in the market.

On buyer and supplier power, the study found that lack of loyalty is the greatest challenge (4.37). The other challenge is bargaining power (3.76) The farmers do not have bargaining power because of their size hence a great challenge to the farmers.

Table 1: **Competitive Challenges Facing Vegetable Farmers**

	No challenge	Least challenge	Moderate challenge	Great challenge	Very great challenge	Mean score
ilry						
ap labor	0	0	64	24	12	3.4
w pricing	1	4	53	30	12	3.4
nomies of scale	8	63	15	9	5	2
w entrants						
tations	0	4	18	58	20	3.9
er offers	34	55	11	0	0	1.7
itical influence	25	45	22	8	0	2.1
w varieties	60	27	13	0	0	1.5
bstitutes						
prices offered by Homegrown	23	62	13	2	0	1.9
de liberalization	4	6	12	54	24	3.8
l vegetables	60	30	10	0	0	1
ality of vegetables	0	0	12	22	66	4.
yer power and supplier power						
rgaining power	0	11	18	55	16	3.7
k of loyalty	0	6	9	27	58	4.3
certain demand	4	8	67	12	9	3.
ncentration of customers in a ion	5	65	15	10	5	2.4

4.4 Responses to Challenges of Competition

The respondents were also to state the extent to which their farms had used various responses to respond to the challenges of competition. The results are summarised and presented in Table 2.

Table 2: Responses to Challenges of Competition

	Not used at all	Least used	Less used	Moderately used	Greatly used	Mean Scores
ivalry						
ffering quality vegetables	0	0	0	26	74	4.74
argeting a specific market	0	6	14	54	26	4
ompeting for the same buyers	0	0	10	20	70	4.6
oadening product range	72	25	3	0	0	1.31
hreat of entry						
gning of contracts	0	0	0	38	62	4.62
emanding for better prices	0	0	5	34	61	4.56
efiance of contracts	60	25	2	8	5	1.73
hreat of Substitutes						
obbying	45	33	12	10	0	1.87
ifferentiating products	45	40	15	0	0	1.7
sking for formal contracts	3	8	12	25	52	4.15
ffering quality products	0	0	0	14	86	4.86
uyer and Supplier Power						
argeting new firms	12	18	35	23	12	3.05
nproving quality	0	0	3	24	73	4.7
hanging marketing strategies	28	35	25	8	4	2.25
uality products	0	0	6	12	82	4.76

To respond to the challenges of rivalry, the study found that farmers offer quality vegetables (4.74), compete for the same buyers (4.6) and target a specific market (4.0). The farmers do not broaden their products range (1.31).

For the threat of new entrants, farmers have resorted to signing of contracts (4.62) and demanding for better prices (4.56). The least used method here is defiance of contracts with the company.

For the threat of substitutes, the farmers have resorted to offering quality products in the market (4.86) and asking for formal contracts (4.15) with the company. The least used methods to respond to threats of substitutes are lobbying (1.87) and differentiating products (1.7).

The farmers have resorted to responding to the challenge of buyer and supplier power by improving quality of products (4.7) or offering quality products (4.76). Farmers have also resorted to targeting other companies (3.05).

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objectives of this study were to determine the competitive pressures facing small scale contracted vegetable farmers in Machakos District and to determine the strategic responses employed by small scale contracted vegetable farmers to competitive challenges.

The study found that 54% of the farmers had had a contract with Homegrown (Kenya) Limited for a period of 3-5 years. 22% had been dealing with Homegrown for a period between 5 and 7 years. 50% had been farmers for a period between 7 and 10 years while 12% of the respondents had been farmers for more than 10 years. The study found that 66% of the respondents had not been contracted by any other horticultural farm before Homegrown (Kenya) Limited. Those who had been earlier contracted by other farms explained that they moved to Homegrown (Kenya) Limited because of its better and prompt pay structure and the fact that the firm offers written contracts to the farmers it contracts. 96% of the farmers have written contracts with the Homegrown (Kenya) Limited. 88% of the respondents cited that they would not contemplate moving to another farm other than Homegrown (Kenya) Limited anytime from now. This is because the written contracts they have with the firm acts as security to get funds from the banks. They also cited reliable payment system with the company. The payments are also weekly and regular hence a better choice than other farms whose payments are not regular. The collection system at Homegrown (Kenya) Limited was also cited to be a good one.

Rivalry was found to be a moderate challenge as shown by the rankings on cheap labor (3.48) and low pricing (3.48). The only challenge emanating from new entrants in the industry was imitations, which was found to be a moderate challenge (3.94) as new farmers grow the same plants grown by the older farmers. The challenge of substitutes was found to be expounded by the quality of vegetables (4.54) and trade liberalization (3.88). Substitutes mean that the quality of their vegetables has to be high in the market or else Homegrown (Kenya) Limited will have to make a choice to go for the others. With the liberalization of economy, the farmers have had to compete with the new entrants in the market. On buyer and supplier power, the study found that lack of loyalty is the greatest challenge (4.37). The other challenge is bargaining power (3.76). The farmers do not have bargaining power because of their size hence a great challenge to the farmers.

To respond to the challenges of rivalry, the study found that farmers offer quality vegetables (4.74), compete for the same buyers (4.6) and target a specific market (4.0). For the threat of new entrants, farmers have resorted to signing of contracts (4.62) and demanding for better prices (4.56) For the threat of substitutes, the farmers have resorted to offering quality products in the market (4.86) and asking for formal contracts (4.15) with the company The farmers have resorted to responding to the challenge of buyer and supplier power by improving quality of products (4.7) or offering quality products (4.76). Farmers have also resorted to targeting other companies (3.05).

5.2 Conclusions

The study concludes that the farmers contracted by Homegrown (Kenya) Limited have been facing a myriad challenges brought about by competition. The salient challenges are quality of production, loyalty issues, liberalization of trade, and lack of bargaining power.

The current world demand and standards have meant that the companies exporting vegetables to foreign nations have to meet very high quality standards which mean that the farmers are obliged to improve on their production quality in order to continue being contracted by Homegrown (Kenya) Limited.

Given the intense competition within the farmers themselves and the competitive prices offered by large exporting farms that contract the farmers, the farmers have had to look for opportunities where their produce can fetch higher margins. Thus, loyalty is a challenge when other companies offer better prices and services.

The liberalization of trade has opened up competition not only to large farms but also small farms. Liberalization has set standards in the market that mean that all and sundry participants in the industry must observe to survive. With the escalating costs of inputs and lack of support from the Government, the small farmers have had to face the wrath of liberalization by putting in extra efforts to survive.

The size of the farmers has also been their undoing. Their small size has been a challenge when it comes to demanding on prices for their produce. The large farms the say on what prices to charge hence a challenge to the farmers.

The farmers have responded to these challenges in a number of ways. The farmers have had to strive and offer quality produce in the market as a starting point. The farmers have also had to compete for the same buyers as other target specific markets in order to create a market for their produce. As other farmers demand better prices for their products, some have resorted to targeting other farms when the prices are better elsewhere. This is what has expounded the switching behaviour among the farmers.

5.3 Recommendations

The study recommends that the cost of inputs be subsidized by the Government in order to reduce the costs for the farmers. This, given that the farmers have less say in pricing their produce, will help them fetch a good margin.

The Government should also come to the rescue of farmers by setting up a minimum price that the farmers need to be paid for their produce so as to shield them from the large companies out to use them.

Future studies need to replicate this study for other export farmers other than vegetable farmers in other horticultural companies to establish whether the same findings would hold.

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APPENDICES

Appendix 1: Research Questionnaire

SECTION A: GENERAL INFORMATION

1. How long have you been a contracted vegetable farmer for Homegrown (Kenya) Limited?

   Less than 3 years ( )

   Between 3 and 5 years ( )

   Between 5 and 7 years ( )

   Between 7 and 10 years ( )

   More than 10 years ( )

2. How long have you been a vegetable farmer?

   Less than 3 years ( )

   Between 3 and 5 years ( )

   Between 5 and 7 years ( )

   Between 7 and 10 years ( )

   More than 10 years ( )

3. Had you been contracted by any other horticultural farm before Homegrown (Kenya) Limited?

   Yes ( ) No ( )

4. If yes in 3 above, why did you move to Homegrown (Kenya) Limited?

....
....
....

5. Do you have a written contract with the Homegrown (Kenya) Limited?

   Yes ( ) No ( )

6. Would you move to another farm other than Homegrown (Kenya) limited anytime from now?

   Yes ( ) No ( )

   Please explain your response above.

....
....
....
....

SECTION B: COMPETITIVE CHALLENGES FACING VEGETABLE FARMERS

To what extent has your firm been challenged by each of the following. Use a 5-point rating scale where 1=No challenge at all and 5=Very great challenge;

7. **Rivalry**

	1	2	3	4	5
Cheap labour	( )	( )	( )	( )	( )
Low pricing	( )	( )	( )	( )	( )

Economies of scale	( )	( )	( )	( )	( )

Others (Specify)

....

....

....

8. **New entrants**

	1	2	3	4	5
Imitations	( )	( )	( )	( )	( )
Better offers	( )	( )	( )	( )	( )
Political influence	( )	( )	( )	( )	( )
New varieties of vegetables	( )	( )	( )	( )	( )

Others (specify)

....

....

....

9. **Substitutes**

	1	2	3	4	5
Low prices offered by Homegrown (Kenya) Limited	( )	( )	( )	( )	( )
Trade liberalisation	( )	( )	( )	( )	( )
Genetically modified vegetables	( )	( )	( )	( )	( )

Quality of vegetables	( )	( )	( )	( )	( )

Others (specify)

....

....

....

10. Buyer power and supplier power

	1	2	3	4	5
Bargaining power due to the size of customers	( )	( )	( )	( )	( )
Lack of loyalty	( )	( )	( )	( )	( )
Uncertain demand	( )	( )	( )	( )	( )
Concentration of customers in a region	( )	( )	( )	( )	( )

Others (specify)

....

....

....

SECTION C: RESPONSES TO CHALLENGES OF COMPETITION

To what extent has your firm used each of the following in order to cope with challenges in the Horticulture industry? Use a 5 point scale where 1= Not used at all and 5= Greatly used.

11. **Rivalry**

	1	2	3	4	5
Offering quality vegetables	( )	( )	( )	( )	( )
Targeting a specific market	( )	( )	( )	( )	( )
Competing for the same buyers	( )	( )	( )	( )	( )
Broadening product range	( )	( )	( )	( )	( )

Others (Specify)

....

....

....

2. Threat of entry

	1	2	3	4	5
Signing of contracts	( )	( )	( )	( )	( )
Demanding for better prices	( )	( )	( )	( )	( )
Defiance of contracts	( )	( )	( )	( )	( )

Others (specify)

....

....

....

12. **Threat of substitutes**

	1	2	3	4	5
Lobbying	( )	( )	( )	( )	( )
Differentiating products	( )	( )	( )	( )	( )
Asking for formal contracts	( )	( )	( )	( )	( )
Offering quality Products	( )	( )	( )	( )	( )

Others (specify)

....

....

....

13. **Buyer power and supplier power**

	1	2	3	4	5
Targeting new horticultural firms	( )	( )	( )	( )	( )
Improving quality	( )	( )	( )	( )	( )
Changing marketing strategies	( )	( )	( )	( )	( )
Quality Products	( )	( )	( )	( )	( )

Others (specify)

....

....