

# An Assessment of Resource Based Competitive Strategy on Operational Performance: A Case of Mumias Sugar Company, Kenya

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## ABSTRACT

The fierce competition as a result of sugar sectorial and global pressures leads to rivalry behaviour. This leads to jostling for resources or product market share. For firms to sustain competitive position over rivals, they engage in competitive activities characterized by actions and/or responses. The purpose of the study was to analyze the relationship between resource based competitive rivalry activities and operational performance of Mumias Sugar Company in Kenya. Specifically, the study sought to examine the relationship between deny attack actions on the operational performance of Mumias Sugar Company. The study was hinged on the factor-market rivalry (FMR) theory. The study adopted descriptive correlational research design. The target population was forty-four (44) section heads, and a census inquiry was done. Using a five – point Likert scale standardized questionnaires, primary data was collected from key informants. Secondary data was extracted from annual reports, publications and documentary analysis to gather background information by reviewing relevant literature. The data was analyzed using inferential statistics of regression and correlation as well as descriptively for comparisons. Study results were presented using frequency tables and charts. The findings the study revealed that the deny action strategy had a 21.44 percent ( $R^2 = 0.2144$ ) effect on company operations performance. This research will be useful to Mumias Sugar Company and any other organizations operating in a factor-market rivalry environment.

**Key words:** Competitive, deny strategy, operational performance.

## 1. Introduction

The sugarcane industry in Kenya is a major employer as well as contributor to the national economic growth. According to KSB (2008), the industry employs about 500,000 people both directly and indirectly in the sugarcane business value chain from production to consumption. While Kenya's sugar industry has made gains over the years, the sector still faces a myriad of challenges which include 1) Low national average yields 2) high cost of producing sugar 3) weak legal and administrative systems and 4) high debt accumulation among other challenges. The above challenges have resulted to poor payment of sugar cane farmers interms of price per tonne as well as timeliness of payment, leading to reduced cane acreage. The reduction in acreage has resulted to decline in supply of this critical resource, which has eventually culminated to resource competitive rivalry among sugar firms. This has manifested through cane poaching actions as well as many other strategies of ensuring resource advantage, including persistent wrangles and counter accusations and litigations among the sugar companies (Obala, 2012).

While Mumias Sugar Company (MSC) has been the most successful of all sugar companies in Kenya, its survival remains challenged due to increased competition in both factor and product markets. In its endeavor to improve its efficiency and effectiveness, the company embraced the diffuser technology in its factory operations. However, the company currently faces another problem of inadequate sugarcane supply following uprooting of the raw material by some farmers who embraced alternative crops believed to offer better returns (Were, 2012).

Mumias Sugar Company's operations in 2012 were mainly affected by the drop in supply of sugar cane resource. A total of 1,917,340 tonnes of sugarcane were processed compared to 2,245,281 tonnes in 2011, representing a drop of 15 %. In the same period, 174,005 tonnes of sugar was milled compared to 235,812 tonnes in the year 2011. These declines in operational parameters were attributed to a decline in cane availability and poor quality cane arising from intermittent dry spells experienced in 2009 and excessive rain experienced in

2011, believed to have affected the sugar cane crop. Sugar cane rivalry manifested through cane poaching in Mumias Sugar Company out grower's zone was also responsible for the drop in quantity of sugarcane crushed as well as total sugar produced (MSC, 2012).

### **Statement of the Problem**

While Mumias Sugar Company (MSC) is the most successful of all sugar firms in Kenya, the company still encounters serious competition at both factor and product markets. In its endeavor to improve performance, the company installed a high capacity processer known as a diffuser which has a huge milling capacity, hence its high demand for sugarcane. The company has also diversified into co-generation of electricity, enabling it to sell up to 34 megawatts to the national grid besides production of bottled water (Mumias sprinkles) and ethanol. Underlying this growth is the challenge of total reliance on only one resource factor, which is sugarcane, whose supply is becoming less than its demand and rivalry for it on the increase.

According to the company's annual report, some key operational indicators declined in 2014 as compared to the previous year. (MSC, 2014). Sugar companies have been drawn into bitter rivalry over cane deliveries from farmers caused by an increase in the number of sugar millers providing alternative buying centers for cane as was noted by Kong'ong'o (2012). Among the most serious rivalry witnessed has been the rivalry between Mumias Sugar Company and West Kenya Sugar Company. The question that arises here therefore is whether these resource-based strategies translate to better operational performance for the company or not.

### **Purpose of the study**

The general objective of the research study was to assess resource based competitive strategy on operational performance of Mumias Sugar Company. The specific objectives for the study was to examine the relationship between deny attack actions and the operational performance of Mumias Sugar Company in Western Kenya.

## **2. Literature Review**

### **2.1 Competition for resources**

To compete effectively in product markets, firms must first establish a strong presence in factor markets (Barney, 1986; Chen, 1996; Miller, 2003; Nelson & Winter, 1982; Pfeffer & Salancik, 1978). However most researchers in the field of competitive dynamics have focussed on product market rivalry (Porter, 1985; Chen, 1996). Recent researchers have pursued the factor-market rivalry concept (Markman, Gianiodis, & Buchholtz, 2009) in their competitive dynamics studies. Chen (1996) and Peteraf and Bergen (2003), observe that each firm faces a unique set of competitors when similarities among resources are considered. Chen (1996) points out that some rivalry at product market owes its origin from rivalry in the factor market. It is this concept of Factor-market that Markman *et al* (2009) have pursued in developing their factor-market rivalry theory.

Mobile resources, those that are easily tradable such as certain technologies, financial resources, and human talent such as engineers, consultants, analysts, and executives, motivate competition among rivals from unrelated product markets primarily because of their transferability or tradability properties but also because they augment strategic flexibility and contribute to the formation of capabilities (Eisenhardt & Martin, 2000; Teece, 2007).

### **2.2 Competitive rivalry**

Competitive rivalry is a stream of reseach within the broader field of competitive dynamics. Hill & Jones (2012) see competitive rivalry as strive that exists among various companies within a given industry caused by the companies' attempt to gain market share from each other. Indeed rivalry has been observed to emerge wherever firms overlap, coexist, or co-occupy the same space, no matter whether the competition is in the product or in the factor market (Hill & Jones, 2012). A Competitive action is generally defined as externally directed, specific, and observable move initiated by a firm to enhance its relative competitive position (Chen *et al.*, 1992; Ferrier *et al.*, 1999; Smith *et al.*, 1991, 1992; Young *et al.*1996). Otherwise, an action is defined also as a specific and detectable market move initiated by a firm, such as introducing a new product or entering a new market, such actions may erode a rival's market share or reduce its anticipated returns while ensuring competitive advantage for the actor (Grimm, Lee, & Smith, 2005).

According to Smith, Ferrier & Ndofor (2001) and Hill & Jones (2012), each industry is likely to differ with respect to the particular types of competitive actions or reactions carried out. However, the vast majority of actions aimed at competitive positioning in product market includes pricing actions, marketing actions, new product actions, capacity and scale-related actions, operations actions and signaling actions among others. Nevertheless, there typically is no clear distinction between an action and a response. Most actions can also be responses either to some general economic condition or to the actions of a rival, and most responses can have original components that could be perceived as competitive initiatives to some organizations (Lamberg, et al., 2009). It is also challenging to identify actions and responses in the complicated, fast-changing competition that characterizes many emerging economies (Chen, et al., 2010).

Important also is competitive action Repertoire, which is the entire set of a firm's entire set of competitive actions carried out in a given firm-year. Arising from this, there are several important constructs related to repertoire structure (Ferrier *et al.*, 1999; Miller & Chen, 1996). For instance, a competitive repertoire simplicity, defined as an overwhelming preoccupation with a single type of action, one that increasingly inhibits the consideration of any others (Miller & Chen, 1996). Competitive Response is another very important aspect of competitive rivalry concept of. Just as all firms can undertake take competitive action, they are also capable of responding to the actions of rivals. A competitive response is a specific countermove, prompted by an initial action that a firm takes to defend or improve its share or profit position in its industry

### 2.3 Deny attack actions

Competitive actions are the means by which firms use to shift market share and affect performance of a rival firms. Targeting a rival's resource is a deliberate attack, in which one firm's gain is another's loss. A deny attack entails a firm trying to lock up a resource to prevent access by a rival or increase the rival's cost of accessing the resource (Stambaugh et al, 2011). For example, Santos and Eisenhardt, (2009) discovered that several new successful ventures choose to acquire other nascent firms for a reason contrary to conventional M&A. Generally speaking, an acquisition involve gaining ownership in a property which may be tangible and/or intangible. In the context of business combinations, an acquisition is the purchase by one company, of controlling interest in the share capital of an existing company (Saxena, 2012). Acquisition of ownership rights by a firm in its suppliers is a common feature in various industries (Matthias et al 2012). Such acquisitions are strategic decisions taken for maximization of a company's growth by enhancing its production and marketing operations, besides reducing competition or limiting the severity of competition from rivals (Saxena, 2012). According to some research done in relation to acquisition of firms, it was observed that acquiring firms resulted to poor performance about as often as they do well from a financial perspective (King, Dalton, Daily, & Covin, 2004). One of the most common form acquisition is vertical integration, which according to Bhardwaj (2011), in some circumstances helps to maximize a firm's profit. Full vertical integration which is associated with controlling the target's decisions, has been observed to decrease downstream prices of an acquiring firm, however it has been shown to be less profitable than passive backwards integration, as long as competition is sufficiently intense in both, downstream and upstream markets (Matthias et al 2012).

Another form of acquisition is Backward integration. It is a form of vertical integration which stretches a manufacturer's operations toward the source of raw materials, strengthening its control on the supply side, is becoming common as a strategy towards gaining competitive advantage from rivals. For instance, steelmaker ArcelorMittal is moving deeper into the mining business to ensure stable material supply (Worthen et al. 2009); likewise, the Chinese apparel manufacturer Esquel, backward integrates supply functions by engaging in cotton farming (Peleg-Gillai 2007). Essentially, any form of acquisition seeks to deny competitors easy access to potentially useful resource (Stambaugh et al, 2011). Other tools used in deny attack include but not limited to patent infringement lawsuits, and securing exclusive rights to a resource.

### 2.4 Conceptual framework

To be able to demonstrate the various variables in the study, the researchers developed a model to be known as CR-OP MODEL (Fig2.1), which indicate the variables at play and how they relate with each other i.e Competitive Rivalry-Operational Performance Model.

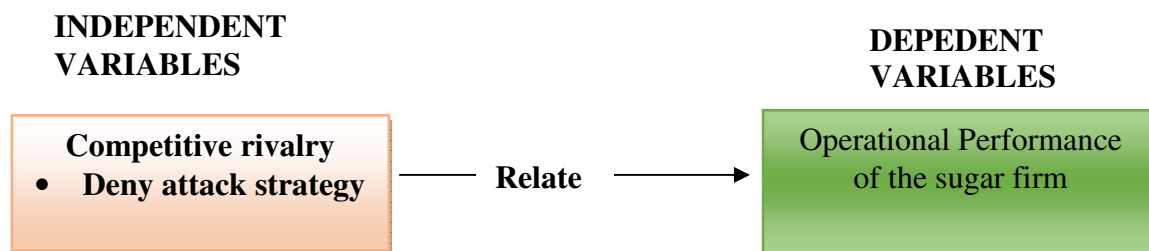


Fig. 2.1 Conceptual frame work. (Researchers,

## 2.5 Organizational Performance in a competitive rivalry environment

Firms engage in competitive actions and responses for them to achieve their organizational objectives. These objectives are related to the performance of the organizations. Competitive behavior has important effects on firms' performance (Smith, Grimm, Chen, and Gannon, 1989). As such, firms striving for competitive advantage must develop strategies for gaining advantage over their rivals. Competitive advantage of a firm is usually reflected in its superiority in production resources and performance outcomes (Day & Wensley, 1988).

When companies within an industry experience a high level of rivalry, profitability of the industry will reduce. Profitability of an industry is reduced even further when the rivalry in the industry is among established companies (Hill and Jones, 2012). According to Schumpeter (1942), the manner or process by which leader firms and challenger firms act and react determines their long-term performance and survival in a competitive environment. This argument has more recently been advanced by Ming-Jer & Danny, (2012), who also state that firms act and rivals respond, and these actions and reactions determine survival and long-term performance.

Competitive dynamics research has generally used common measures of performance as the dependent variable, including 1) changes in market share (Chen & MacMillan, 1992; Ferrier et al, 1999), 2) returns to shareholders (Lee et al, 2000), 3) sales growth (Ferrier, 2000), 4) profitability and profit growth 5) return on investment (Hambrick et al., 1996; Smith et al, 1991; Young et al 1996). Apart from the generally used measures of performance, several studies of the effects of competitive action on performance in the airline industry used industry-specific measure of performance such as operating revenue per available seat-mile which accounts for efficiency, aircraft load factors (Chen & Hambrick, 1995; Miller & Chen, 1994, 1995, 1996) among others.

In the sugar industry, performance has been measured using both financial and operational indicators. Examples of financial indicators include profits and cost of production. On the other hand operational indicators include measures of productivity such as average yield of sugarcane (TCH), quantity of sugar milled, as well as measures of efficiency which includes the ratio of tonnes of cane to tonnes of sugar (TC: TS), net milling or grinding hours and capacity utilization in percentage among others (KSI, 2010; Staude, 2011; MSC, 2012).

## 3: RESEARCH METHODOLOGY

### 3.1 Research design

Research design is the arrangement of conditions for collection, measurement and analysis of data (Kothari, 2010). According to Creswell, (2009), it is a plan and procedure for research that span the decision from broad assumptions to detailed methods of data collection and analysis. This research therefore adopted a descriptive correlational design. The design was appropriate as it enabled the researchers to collect data as they are describing the behavior of a subject without influencing it in any way, and draw effect relationships between the study variables. The researcher collected data concerning the feeling of management staff on the relationship between factor-market competitive rivalry strategies of deny attacks actions and the operational performance of

Mumias Sugar Company. Data collected was analyzed to determine how each independent variable affects the dependent variable. A Questionnaire was used as the tool in the collection of quantitative data from the section and departmental heads or managers, and thereafter analyzed.

### 3.2 Target Population

The target population comprised various heads of sections in various departments. These are the managers of various functional units who are charged with supervision, implementation of strategies, as well as giving feedback to top management with regard to the impact of various strategies. According to the company's top management report, Mumias Sugar Company had 44 (forty-four) section heads as at 28<sup>th</sup> February 2013, a figure that this study targeted for data collection.

Table 3.1 Sampling frame

Department	Number of sections	Number of respondents
General management	7	7
Agriculture	9	9
Commercial	5	5
Factory	7	7
Finance	5	5
Human resources	7	7
Information communication technology (ICT)	4	4
<b>Total respondents</b>		<b>44</b>

Source: (Authors, 2016)

### 3.3 Data Collection instruments

Structured questionnaire was the principal tool used in collecting quantitative data, which was used to test the relationship between independent variables and the dependent variable in this study. This data collection tool was preferred because it ensures uniformity, it is also economical, time saving, can gather data over a large sample as compared to other tools, has no room for biases and maintains confidentiality of information (Mugenda and Mugenda, 2003).

The main questionnaire items were designed as statements (Likert items) on the research tool and were measured on a five-point Likert scale. The Likert items sought to capture feelings of managerial staff on the relationship between the competitive rivalry actions related to deny actions as independent variable and operational performance of Mumias Sugar Company.

### 3.4 Data Analysis, Interpretation and Discussions

In measuring the associations between variables, inferential statistical tools of correlation and regression analysis was performed using SPSS version 20.0 in order to examine the associations between deny attack strategy (independent variables) and operational performance (dependent variable) of Mumias Sugar Company. Descriptive statistical tools were also used to present, describe and examine the trends within data. Graphical analysis of data and frequency tables were used to assist in displaying data in important visual formats that make it easy to observe emerging patterns and identify differences among results sets.

#### 3.4.1 Response Rate

A total of 44 respondents were identified as comprising the sample of the study. Questionnaires were self-administered. A total of 32 questionnaires were received back having been respondent to, translating to 72.7 percent response rate. As shown in table 3.2. The majority of respondents (84.4 percent) were male while the rest (15.6 percent) were female.

Table 3.2 Gender of the respondent

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	27	84.4	84.4	84.4
Female	5	15.6	15.6	100.0
Total	32	100.0	100.0	

Source: (Field Data, 2016)

### Respondents' Period of Service

The results show that 15.5 % had not completed 5 years of service in Mumias Sugar Company, 31.3% had worked between 5-10 years in Mumias sugar while those with more than 10 years of service in the company comprised 53.2 percent. This is shown in Table 3.3

Table 3.3 Length of service in Mumias Sugar Company

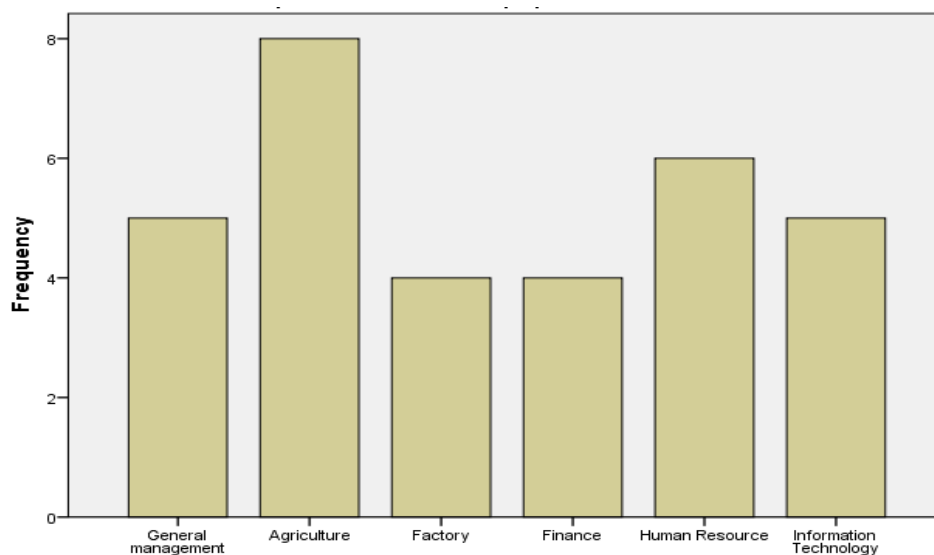
Years worked in MSC	Frequency	Percent	Valid Percent	Cumulative Percent
1.00	1	3.1	3.1	6.3
3.00	2	6.3	6.3	12.5
4.00	1	3.1	3.1	15.6
5.00	2	6.3	6.3	21.9
6.00	2	6.3	6.3	28.1
7.00	4	12.5	12.5	40.6
8.00	1	3.1	3.1	43.8
10.00	1	3.1	3.1	46.9
11.00	1	3.1	3.1	50.0
12.00	1	3.1	3.1	53.1
13.00	2	6.3	6.3	59.4
14.00	2	6.3	6.3	65.6
15.00	3	9.4	9.4	75.0
17.00	2	6.3	6.3	81.3
18.00	1	3.1	3.1	84.4
19.00	1	3.1	3.1	87.5
20.00	1	3.1	3.1	90.6
21.00	1	3.1	3.1	93.8
25.00	2	6.3	6.3	100.0
Total	32	100.0	100.0	

Sours: (Field data, 2016)

### Respondents' department

Research sought to find out the distribution of respondents on the basis of the department they work in. The findings showed that majority came from Agriculture (25 %) followed by Human resources, ICT and General management respectively. The least respondents came from both Factory and Finance that had 4 respondents each out of 32, comprising 12.5 percent respectively. The frequency is shown in Figure 3.4:

**Figure 3.1 Department where respondent works**



Source: (Field data, 2016)

**Respondents' Opinion on the Relationship between factor-market competitive Rivalry and Operational performance of Mumias Sugar Company**

**Table 3.4 Respondents' opinion on deny attack actions**

		Sugar cane delivery to factory in tonnes increases when MSC denies rivals advantage by acquiring control of outgrowers	Tonnes of canes crushed per year increase when MSC denies its rivals advantage by acquiring control of outgrowers operations	Outgrowers and or nucleus yield of cane in tonnes/ha increases when MSC denies its rivals advantage by acquiring control of outgrowers operations	Overall factory time efficiency increases following acquiring control of outgrowers operations	Factory capacity utilization is better when the company denies competitors raw materials through acquiring control of outgrowers operation
N	Valid	32	32	32	32	32
	Missi	0	0	0	0	0
	ng					
Mean		3.0313	3.1250	3.5313	3.6875	3.0938
Std. Error of Mean		.25195	.25696	.21990	.22197	.23912
Median		4.0000	4.0000	4.0000	4.0000	3.0000
Mode		4.00	4.00	4.00	4.00	4.00

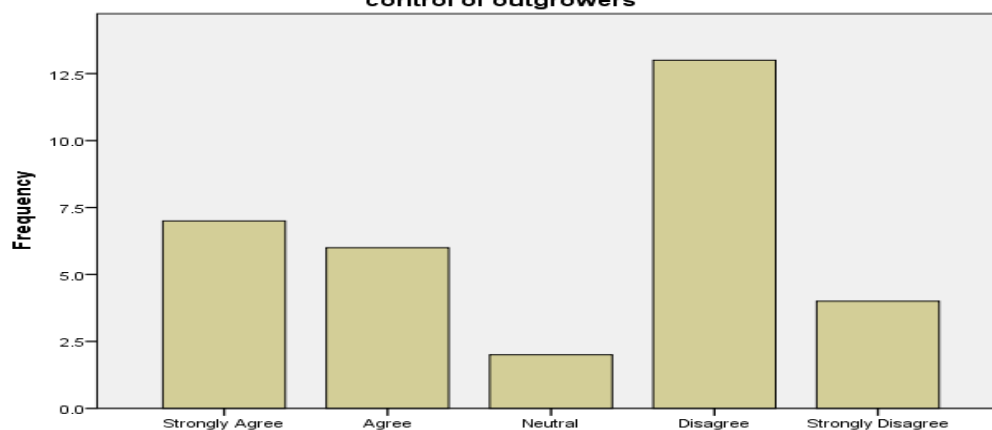
Std. Deviation		1.42522	1.45358	1.24394	1.25563	1.35264
Variance		2.031	2.113	1.547	1.577	1.830
Skewness		-.272	-.231	-.719	-.716	-.180
Std. Error of Skewness		.414	.414	.414	.414	.414
Kurtosis		-1.440	-1.435	-.391	-.548	-1.222
Std. Error of Kurtosis		.809	.809	.809	.809	.809
Range		4.00	4.00	4.00	4.00	4.00
Minimum		1.00	1.00	1.00	1.00	1.00
Maximum		5.00	5.00	5.00	5.00	5.00
Sum		97.00	100.00	113.00	118.00	99.00
Perce	25	2.0000	2.0000	3.0000	3.0000	2.0000
ntiles	50	4.0000	4.0000	4.0000	4.0000	3.0000
	75	4.0000	4.0000	4.0000	5.0000	4.0000

Source: (Field data, 2016)

Worth noting is the combined ‘disagree’ and ‘strongly disagree’ opinions of respondents on the effect of acquiring control of Outgrowers operations by the company on all the operational performance indicators such as amount of sugarcane delivered to the factory (Figure 3.1), amount of sugarcane crushed per unit time (figure 3.2, sugar cane yield in tonnes per hectare (figure 3.4), factory time efficiency (figure 3.5) and factory capacity utilization (figure 3.6). This may mean that the company’s strategy of controlling outgrowers as opposed to leaving it to other firms such as MOCO has not created any competitive rivalry advantage.

**Figure 3.2**

**Delivery in tonnes increases when MSC denies rivals advantage by acquiring control of outgrowers**

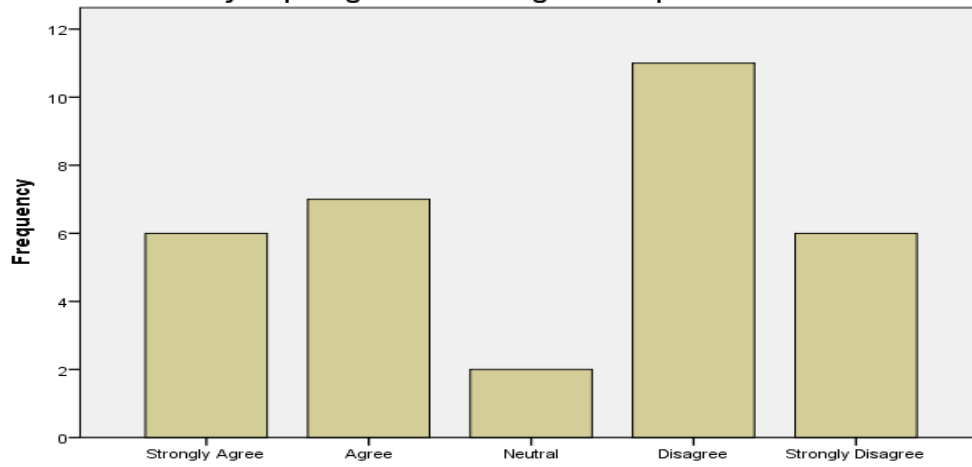


(Source: Field data, 2016)



**Figure 3.3**

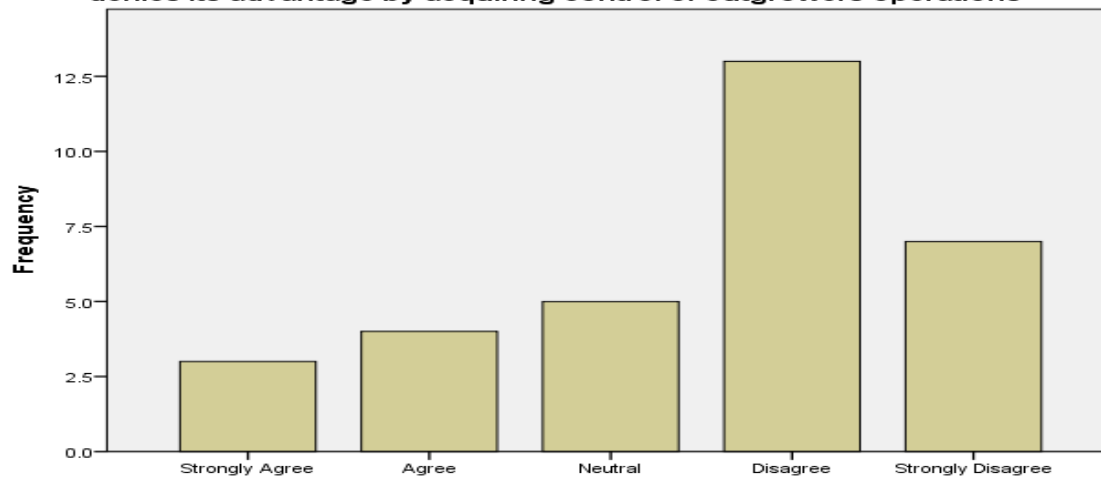
**tonnes of canes crushed per year increase when MSC denies its rivals advantage by acquiring control of outgrowers operations**



(Source: Field data, 2016)

**Figure 3.4**

**outgrowers and or nucleus yield of cane in tonnes/ha increases when MSC denies its advantage by acquiring control of outgrowers operations**



(Source: Field data, 2016)

**The correlation between deny attack competitive actions and operational performance of Mumias Sugar Company**

<b>Dependent variable (Operational Performance)</b>	<b>Independent variable (deny attack strategy)</b>	<b>Pearson's Correlation (r)</b>	<b>r<sup>2</sup></b>
<b>Sugar cane delivery</b>	Taking control of outgrowers from other firms	<b>-0.018*</b>	<b>0.0003</b>
<b>Sugarcane Crushed in tonnes</b>	Taking control of outgrowers from other firms	<b>-0.178*</b>	<b>0.0317</b>
<b>Factory time efficiency(overall)</b>	Taking control of outgrowers from other firms	<b>-0.463*</b>	<b>0.2144</b>
<b>Sugarcane yield in tonnes pe hectare</b>	Taking control of outgrowers from other firms	<b>-0.082*</b>	<b>0.0067</b>
<b>Factory capacity utilization</b>	Taking control of outgrowers from other firms	<b>-0.068*</b>	<b>0.0046</b>

Source: (Field data, 2016)

\* Correlation is significant at the 0.01 level

Sugarcane delivery to the factory as an operational variable was found to have a weak negative correlation with the deny market competitive rivalry action in MSC. Taking control of Out growers as a deny strategy to outcompete rivals had a weak negative correlation with a value of -0.018. Sugarcane Crushed in tonnes by the factory was observed to have a weak negative correlation with deny strategy ( $r = -0.113$ ). There was a moderate negative correlation between the overall factory time efficiency and taking control of outgrowers (deny attack). Tonnes of sugarcane produced per hectare (TCH) was observed to have a weak negative correlation with all the strategies used as factor-market competitive rivalry, that is Taking control of outgrowers from other firms (deny attack). Factory capacity utilization had a weak negative correlation with the deny competitive strategy.

**The regression between deny competitive rivalry actions and operational performance of Mumias Sugar Company**

<b>Dependent variable (Operational Performance)</b>	<b>Independent variable (deny competitive rivalry actions)</b>	<b>Regression (B)</b>
<b>Sugarcane Crushed in tonnes per year</b>	Taking control of outgrowers from other firms (deny attack)	<b>0.063</b>
<b>Factory time efficiency</b>	Taking control of outgrowers from other firms (deny attack)	<b>-1.055</b>
<b>Sugarcane yield in tonnes</b>	Taking control of outgrowers from other firms (deny attack)	<b>-0.173</b>
<b>Factory capacity utilization</b>	Taking control of outgrowers from other firms (deny attack)	<b>0.490</b>

Source: (Field data, 2016)

Sugarcane crushed by the company is predicted to increase by 0.0632 tonnes when the deny attack action increase by one unit. These findings were consistent with the findings of the relationship between deny actions as seen in other industries ( Saxena, 2012; Stambaugh *et al*, 2011; Worthen *et al*, 2009; Markman *et al*, 2009).

Overall factory time efficiency of the company is predicted to decrease by 1.055 tonnes when the deny attack action increase by one. These findings were also inconsistent with the findings of the relationship between deny, defect and debase actions seen in other industries ( Saxena, 2012; Stambaugh *et al*, 2011; Worthen *et al*, 2009; Markman *et al*, 2009; Peleg-Gillai, 2007). Sugarcane yield in the company's sugar zone is predicted to decrease by 0.173 tonnes when the deny attack action increase by one unit. On this, dependent variable, the deny attack action was inconsistent with findings of the relationship between deny, defect and debase actions and

operational performance seen in other industries (Saxena, 2012; Stambaugh *et al.*, 2011; Worthen *et al.*, 2009; Markman *et al.*, 2009). In addition, factory capacity utilization of the company's plant is predicted to increase by 0.49 units when deny attack action increase by one unit. The findings in terms of deny actions were consistent with the findings of the relationship between deny attack actions and operational performance of a firm against rivals seen in other industries. (Saxena, 2012; Stambaugh *et al.*, 2011; Worthen *et al.*, 2009; Markman *et al.*, 2009).

## 5: CONCLUSIONS

The main goal of the research was to determine the relationship between deny attack resource based competitive strategy and the operational performance of Mumias Sugar Company. The study revealed and concluded that the company's employees do not consider strongly that acquisition of MOCO's operations in out growers as a strong deny attack strategy on its operational performance, and indeed as a predictor, it does not influence the operations much. In addition, the study found a negative correlation between the deny action strategy and performance. Conclusively, the study revealed that the deny action strategy had a 21.44 percent ( $R^2 = 0.2144$ ) effect on company operations performance.

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