A SUPPLY CHAIN PERFORMANCE FRAMEWORK FOR SUGAR MANUFACTURING FIRMS IN KENYA: A FOCUS ON MARKETING DIVERSIFICATION STRATEGY

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Abstract: **Sugar manufacturing firms in Kenya are facing myriad of challenges and bottlenects, for instance Mumias Sugar Company once a flag bearer in East and Central Africa is on its deathbed. Others like Chemelil Sugar and Muhoroni sugar are highly insolvent and under receivership. Despite the fact that most these sugar manufacturing firms have diversified their operations, the performance is dismal. The central theme of this study was to establish the effect of marketing diversification strategy, on supply chain performance of sugar manufacturing firms in Kenya. The study is guided by the theory of competitive advantage. Research design used was descriptive survey. Stratified proportionate sampling was used to select 396 respondents from a total of 1518 top-level managers, section heads and supervisors of sugar manufacturing firms in Kenya. Close-ended questionnaires were used as data collection instruments. The study reveal that Marketing Diversification had a moderate significant predictive effect on supply chain performance (r=0.519). Recommendation, market diversification is a source of competitive advantage. Expanding markets and niche reduces risk associated with fluctuating demand and changing customer taste and preferences.**

Keywords: **Marketing diversification, Supply Chain performance.**

1. INTRODUCTION

Many businesses today strive to maximize returns and minimize costs. Marketing diversification can be used as an effective tool of improving the firm's competitive position. Several studies have tried to stress the impact of diversification on the success of the company. Karla & Abbrca (2017) suggested in their Diversification Strategy and Corporate Performance analysis in India that the associated market diversification strategy has a negative and substantial impact on the performance of firms. Inverse to their findings in a study conducted in Malaysia, Kwok & Jianmei (2006) found that an undiversified firm can perform better in terms of return than a broadly diversified firm but has higher risks. A separate research by Thomas (2012) showed that productivity was positively linked to the diversification of products and technology among major British manufacturing companies. In comparison, Emeobong (2019) deduced that more focused firms were more profitable than non-focused companies in his research on the impact of diversification on firm efficiency. His observations indicate two potential reasons: low-cost businesses diversify in pursuit of increased profits; businesses see diversification as a way to reduce risk.

The synergy that it generates is one of the main advantages of diversification found in management literature (Harry & Bowen 2014). Through expanding into new markets, the process involved in operating on new technologies and products provides opportunities to establish new partnerships. Ravichandran & Bhaduri (2015) separately consider that the associated diversification of the enterprise increases the value of a firm and the unrelated divergence decreases its value, according to his findings, which indicate that a highly diversified enterprise does not have a positive impact on output due to vertical diversity. Shuguang and Karen (2010) found that a well-diversified firm can catalyze the success of the firms in their analysis of the impact of market diversification on Indonesian manufacturing companies. Kim & Yeni (2011) noted that a conglomerate of vertical and horizontal diversification strategy allows a firm to achieve income stability that is necessary for the company's survival. Rhoades (2014) alleged that the incorporation of related and non-related diversification strategies enables businesses to achieve synergies.

Githira (2008) says the diversification process entails the inclusion of the company in new areas of activity either via internal growth processes or by acquisitions; his findings showed that diversification has been driven by financial availability, government regulatory policies, business and/or market potential, entry costs and access to distribution channels and business risk. In his study of Kenyan commercial state-owned companies' Rakki (2013) postulated that diversification strategy is positively connected with the overall success of the company

Statement of the Research Problem

The sugar industry is both economic and political; it maintains food security that enhances rural life and provides millions of Kenyans with safe livelihoods, but it also has to endure significant government interference. The industry is under constant threat of collapse due to persistent challenges, ranging from liberalization and growing competition from cheap imports of sugar, weak policies and mechanisms to tackle basic problems which would aid recovery and government continuing interference which has led to industrial mismanagement. (KSB 2018). Although the highly diversified companies have lower returns and much less volatility outcomes, diversified companies have better performance in the small and average levels of success than undiversified companies on the basis of risk and return dimensions.

Objective of the study

The main objective of this study is to establish the effect of marketing diversification on supply chain performance of sugar manufacturing firms in Kenya.

2. LITERATURE REVIEW

The Theory of Competitive Advantage

The theory of competitive advantage was advanced by Michael Porter in 1985. It provides a tool for analyzing competition with all the implications. The competitiveness of firms determines the firm's efficiency and superior performance of the firm's results from competitive advantages that are as a result of monopoly rents (Powell, 2010). The major goal of every business is to make and maximize returns. Firms that persistently earn high levels of profits compared to competitors have competitive advantage (McEvily & Zaheer 2013). In order to achieve the goal of profit maximization, businesses strive to create competitive advantage in various industries in which they operate in. These monopoly rents are obtained from the protected market position where there is lack of competition developed through restriction of output (Peteraf 2014).

Competitive advantages are rarely asserted with reference to any theoretical framework (Kering 2015). Competitive advantage theory is relevant to the study given that the degree of competitiveness of firms arises from its ability to attract and retain customers through lower prices and outsourcing strategies of the products and services which lowers costs incurred in the firms, thus having competitive advantage compared to other firms in the market. The theory therefore informed the dependent variable.

Marketing Diversification and Supply Chain Performance

Mark (2001) pointed to the fact that more concentrated firms are more competitive, and went on to propose three possible explanations: (a) low-profit firms diversify in pursuit of higher profits (with profits further suffering as this strategy is undertaken), (b) firms perceive diversification as a way of reducing risk and therefore embracing lower mean profitability, or (c) the desire of management for development or for other purposes contributes to a diversification of such businesses. In order to develop the relationship between business diversification and company social results, Xiaorong and Rwegasira (2008) conducted a study in China. The study aimed to identify factors which explain the diversification strategy of

companies. The results showed no important connection between strategies to diversify businesses and social performance of the group. The research in China revealed a conceptual void which the current analysis has to fill.

Market expansion (Enlarged market)

According to Harzing (2010), an organization's prestige typically comes from an enhanced market share which can be gained by the power of its leader and therefore strengthens its negotiation skills. He also argued that large companies, in the markets with vendors, have greater bargaining leverage than small players. Consequently, major companies became more competitive in the market, increasing their operating capacity. Anil and Narendar (2011) indicated that diversified companies perform better in both risk and return dimensions than undiversified companies. They continued by classifying companies by performance class to check the robustness of these tests. The findings showed that undiversified businesses had higher returns among the better performing groups, but these returns were followed by high variance.

Irfan, Ather and Majid (2012) concluded that a dominant, non-diversified company can earn a much better return than a highly diversified company, but its risks are much higher. When managers of these companies opt for diversification, their returns are reduced but their risk decreases proportionately more than the decrease in their returns. In this scenario, the reward and return will be resolved. They argued that diversification and market success had no positive relationship. Both companies are comparable in output with regards to their returns and risk measurements, whether they are extremely diversified companies, moderately diversified companies or less diversified companies. (Hitt & Kim 2012) notes that the alteration or change of the marketing mix variables raises market share.

Makumbi (2012) carried out a review to determine the factors affecting HACO Industries diversification strategies. To achieve this aim, a case study research design was used. An interview guide was used to collect primary data. Secondary data have also been used from catalogs and other publications. This knowledge was analyzed using a content analysis tool. The study found that HACO Industries has established a diversification strategy by offering a business climate, collaborations, alliances, and joint ventures. When deciding the diversification plans, the leadership headed by its President was also crucial. The study revealed that the company also influenced diversification strategies through its investment in information technology, product delivery, marketing and talent growth. The research demonstrates the conceptual difference in the HACO industry while the present study focuses on sugar production companies in Kenya.

Okuom (2013) conducted a study to examine whether or not the Sony Sugar diversification process improved efficiency. Both primary and secondary data were obtained during study. The primary figures were interviews, while the secondary statistics were gathered from Sony Sugar's updated annual plans. The study found that the Sony Sugar diversification strategy had enhanced Sony Sugar production and increased the company's operating costs. The study showed that the company's earnings per share (EPS) and sales rose by 30 per cent with the diversification approach. The study similarly indicates a conceptual discrepancy, as only the Sony Sugar Business was included in the analysis while the current research included all the sugar manufacturing companies in Kenya.

Market Niches

Markides and Williamson (2014) established that 'strategic' partnerships also has a higher value than business ties, and associated businesses only performed a little better in markets where combined assets are relevant than those unrelated. Rhoades (2014) proposed that a market approach could provide better alternative results to the company approach to recognize the effect of diversification on corporate success. Price reduction means sales profits are growing, as a result of the correct market rates prices are reduced (Badi, 2015). This works only if market players willingly follow the price cuts. In their study on the relation between the marketing strategy and the company's efficiency, Mbithi, Muturi and Rambo (2015) showed mixed results in developing new segments, which have an effect on sales volume, while not statistically significant, although extends to other new geographical areas, with a statistically significant influence on sales volumes. Depending on the outcome of expanding both to new areas and creating new consumer segments, profitability will not increase, but market share will ultimately have a beneficial impact on profitability

Negotiation / Bargaining power

In addition, greater market share translates into greater leverage (bargaining power) over customers and suppliers. Economies of scale benefits would be realized by making production more effective, having efficient distribution channels, ensuring purchasing efficiency and overhead sharing. Wheeller and Hunger (2011) have described marketing diversification as being a strategy where companies take up more of their dominant markets. Sulaimon and Olufemi

(2018) revealed that a high link exists between marketing capacity and organizational performance, but also that diversification has an important impact on the performance of an organization.

3. METHODOLOGY

This study used descriptive survey design as it sought to establish the relationship between marketing diversification strategy and supply chain performance. Descriptive survey design allows the researcher to evaluate the relationship between the study variables. The population of the study comprised top-level managers, section heads and supervisors totaling 1518 in all sugar manufacturing firms. The study applied Yamane (1967) to get a sample of 316 respondents. To cater for non-response and loss of data from the unit of analysis, sample size was increased from 316 to 396 during data collection, processing and analysis. The researcher loaded the sample size upwards by 25.5%. This extended the sample size to 396 from an initial sample of 316 as recommended by Lavrakas (2008)

4. RESULTS

Demographic Characteristics of Companies

Demographic characteristics of the sugar manufacturing firms have been defined by the firm's network of operations.

Table 1: Firm Characteristics

		Frequency	Percent
Firm's network of operations	Local	70	19.7
	Nationwide	209	58.7
	Regional wide	36	10.1
	International/ global	41	11.5
	Total	**356**	**100.0**

Source: Field Data (2019)

Firm's Network of Operations

Table 1 shows that 58.7% of the sugar manufacturing firms operates at national level, 19.7% at local level while 11.5% operates at global level and 10.1% operates at regional level. The implication of these results is that most sugar manufacturing firms in Kenya operate nationally while few sugar manufacturing firms operates at global level. This could be attributed to the following: High Cost of Production in comparison to other COMESA countries, Kenya ($800-1000), Sudan, Egypt, Zambia, and Malawi ($200-340). Maturity Period, 18-24 months for Kenyan sugarcane to mature, compared to 9-11 months in South Sudan and Egypt. Declined Cane yield per hectare in Kenya does not compare well with global trends. For instance, the average sugar cane yield reduced to 55.3 tonnes per hectare in 2017 compared to 62.2 tonnes per Hectare in 2016, representing a decrease of 10.9%.

Descriptive Statistics for Market Diversification

The respondents agreed (30.3%) that their companies had expanded the prevailing market share by identifying new uses of the firm's present products as depicted by a mean of 4.03 and standard deviation of 1.209. Respondents agreed (32.3%) that the sugar firms have expanded the prevailing market share by identifying new consumers who have sufficient level of interest on the company's new Products (mean of 4.28 and standard deviation of 1.192); they agreed (37.1%) that the companies have developed totally new markets not related to the company's core business (mean of 4.11 and standard deviation of 1.264); they agreed (43.0%) that their companies concentrates its marketing and distribution effort on its

platinum customers (mean of 4.26 and standard deviation of 1.232);. Majority of the respondents (25.6%) neutrally accepted that their companies pursue opportunities beyond the current market in line with the introduction of new users in the market (mean of 3.67 and standard deviation of 1.055). They agreed (34.0%) that their companies had a higher negotiation power when dealing with downstream supply chain partners (mean of 3.96 and standard deviation of 1.016). On the other hand, 35.9% of the respondents disagreed that their companies had a higher negotiation power when dealing with upstream supply chain partners (mean of 2.88 and standard deviation of 1.100); and neutrally accepted (26.7%) that their companies' identification of new market niches has enabled their Company spread the risks (mean of 4.81 and standard deviation of 1.136). lastly they agreed (35.1%) that price competition increases and margins fall when sugar firm ventures in highly saturated markets (mean of 4.89 and standard deviation of 1.006).

Table 2: Descriptive Statistics for Market Diversification

	N	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	Std. Dev.	Max	Min.
Our company has expanded the prevailing market share by identifying new uses of the firm's present Products	356	35 (9.8)	55 (15.4)	84 (23.6)	108 (30.3)	74 (20.8)	4.03	1.209	5	1
The Sugar firm has expanded the prevailing market share by identifying new consumers who have sufficient level of interest on the company's new Products	356	62 (17.4)	98 (27.5)	45 (12.6)	115 (32.3)	36 (10.1)	4.28	1.192	5	1
The company has developed totally new markets not related to the company's core business	356	21 (5.9)	73 (20.5)	70 (19.7)	132 (37.1)	60 (16.9)	4.11	1.264	5	1
Our company concentrates its Marketing and distribution effort on its platinum customers	356	20 (5.6)	78 (21.9)	74 (20.8)	153 (43.0)	31 (8.7)	4.26	1.232	5	1
Our company pursues opportunities beyond the current market in line with the introduction of new users in the market	356	35 (9.8)	87 (24.4)	91 (25.6)	87 (24.4)	56 (15.7)	3.67	1.055	5	1
Our company has a higher negotiation power when dealing with downstream supply chain partners	356	38 (10.7)	84 (23.6)	99 (27.8)	121 (34.0)	14 (3.9)	3.96	1.016	5	1
Our company has a higher negotiation power when dealing with upstream supply chain partners	356	39 (10.9)	128 (35.9)	60 (16.9)	92 (25.9)	37 (10.3)	2.88	1.100	5	1
Identification of new market niches has enabled our Company spread the risks	356	56 (15.7)	64 (18.0)	95 (26.7)	94 (26.4)	47 (13.2)	4.81	1.136	5	1
Price competition increases and margins fall when the sugar firm ventures in highly saturated markets	356	14 (3.9)	52 (14.6)	47 (13.2)	125 (35.1)	118 (33.1)	4.89	1.006	5	1

Source: Field Data (2019)

Descriptive Statistics for Supply Chain Performance.

Supply Chain Performance was the dependent variable in the study which is regressed on the four Business Diversification Strategies. Reliability coefficient for the items was above 0.7 which means they were accurate measures of supply chain performance. According to Table 3, the firm's quality of Products had improved (mean of 4.03 and standard deviation of 1.247). According to the responders, quantity of Products had also gone up (mean of 4.14, standard deviation 1.3) and so was Product breadth. The respondents also indicated that cut-to-crash time had significantly reduced. Challenges the firms face majorly are maintenance of optimum levels of supplies and utilization of resources.

**Table 3: Descriptive Statistics for Supply Chain Performance**

	N	SD (%)	D (%)	FA (%)	A (%)	SA (%)	Mean	Std. Dev.	Max	Min.
Quality of Products produced by our firm has improved	356	27 (7.6)	28 (7.9)	54 (15.2)	162 (45.5)	85 (23.9)	4.03	1.247	5	1
Quantity of Products produced by our Company has gone up	356	9 (2.5)	60 (16.9)	56 (15.7)	149 (41.9)	82 (23.0)	4.14	1.321	5	1
Product breadth (scope /variety) has expanded	356	28 (7.9)	59 (16.6)	77 (21.6)	128 (36.0)	64 (18.0)	4.29	1.240	5	1
Our Company produces the right quality of Products	356	7 (2.0)	36 (10.1)	51 (14.3)	178 (50.0)	84 (23.6)	4.32	1.058	5	1
Our Company has adopted lean manufacturing system	356	43 (12.1)	38 (10.7)	91 (25.6)	136 (38.2)	48 (13.5)	4.07	1.228	5	1

Our Company has experienced an increased customer base	356	26 (7.3)	50 (14.0)	93 (26.1)	118 (33.1)	69 (19.4)	4.16	0.906	5	1
Our company's Production system is very flexible and agile	356	18 (5.1)	73 (20.5)	110 (30.9)	97 (27.2)	58 (16.3)	4.41	1.226	5	1
Our company maintains optimal Inventory levels	356	34 (9.6)	28 (7.9)	117 (32.9)	103 (28.9)	74 (20.8)	3.98	1.021	5	1
Our Company's cut-to-crush time has improved	356	31 (8.7)	59 (16.6)	98 (27.5)	132 (37.1)	36 (10.1)	4.05	1.044	5	1
Our Company's Cycle time (farm to shelf) has reduced drastically	356	31 (8.7)	40 (11.2)	151 (42.4)	94 (26.4)	40 (11.2)	4.07	1.126	5	1
In our Company there is optimal utilization of resources	356	10 (2.8)	90 (25.3)	86 (24.2)	114 (32.0)	56 (15.7)	3.85	1.562	5	1
Product Diversification has increased our Company's sales volume	356	22 (6.2)	99 (27.8)	96 (27.0)	100 (28.1)	39 (11.0)	3.97	0.987	5	1
Technological Diversification has increased our company's customer base	356	19 (5.3)	80 (22.5)	88 (24.7)	115 (32.3)	54 (15.2)	4.03	1.139	5	1
Management Diversification has enhanced our company's operational flexibility	356	11 (3.1)	82 (23.0)	85 (23.9)	127 (35.7)	51 (14.3)	4.07	1.022	5	1

Source: Field Data (2019)

a) Marketing Diversification

Responses for Marketing Diversification were also subjected to normality test. An inspection of the graph shows that the participants' feedback on the matter of Marketing Diversification was normally distributed hence appropriate for parametric analysis (Figure 1) the mean rank for the factor is 33.09 and a standard deviation 8.388.
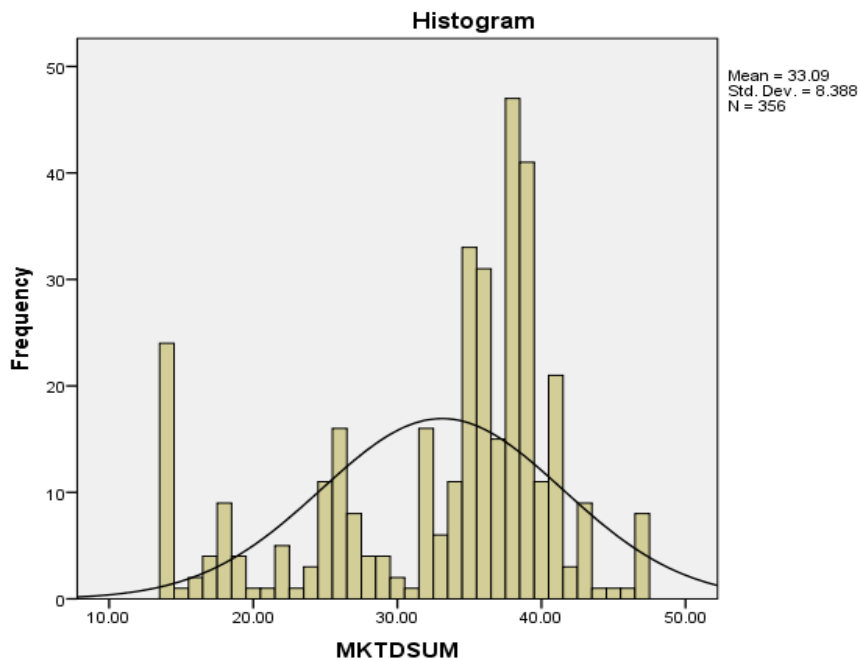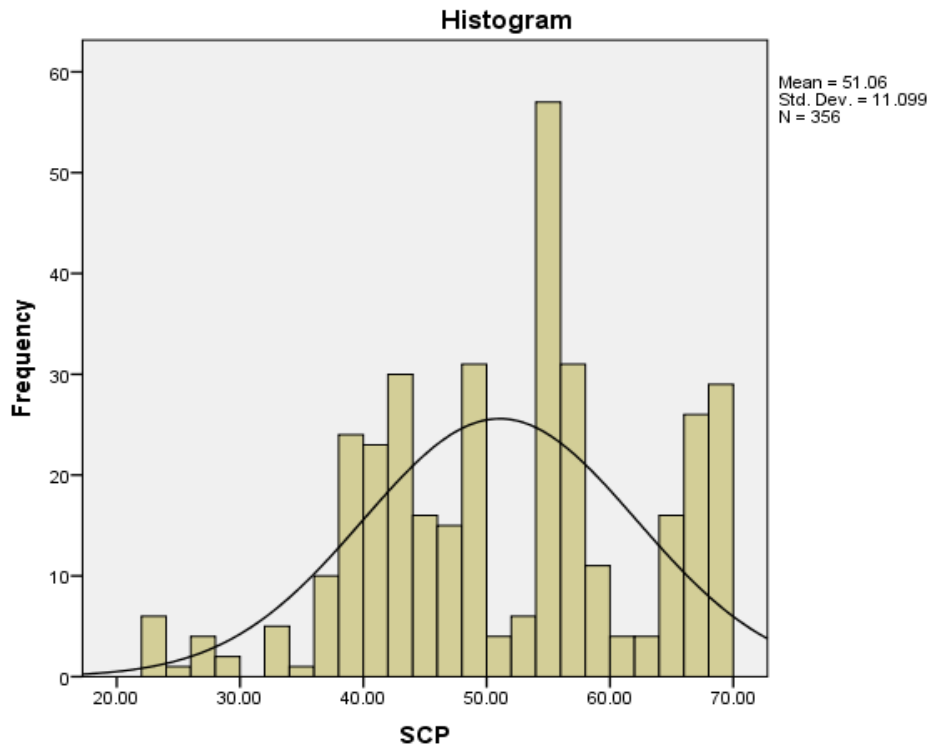

Figure 1: Distribution of Response for Market Diversification

Source: Field Data (2019)

b) Supply Chain Performance

In this research work, supply chain performance is the dependent variable hypothesized to be affected by the Business Diversification Strategies. Participant response on this variable was explored graphically to determine whether they were normally distributed. The result presented in Figure 2 is testimony that the distribution did not seriously violate the normality assumption expected in classical linear regression techniques. The mean value for the variable is 51.06 while the standard deviation is 11.099.

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Figure 2: Distribution of Response for Supply Chain Performance

Source: Field Data (2019)

Therefore, all the five factors have qualified for application to the parametric analyses with coefficients expected to be consistent, unbiased and efficient.

a) Linearity between Marketing Diversification and supply chain Performance

A scatter plot for Marketing Diversification against supply chain performance seen in Figure 3 indicates a linear relationship between the two variables. A fitted line has a slope coefficient of 0.69 and intercepts value of 28.35.
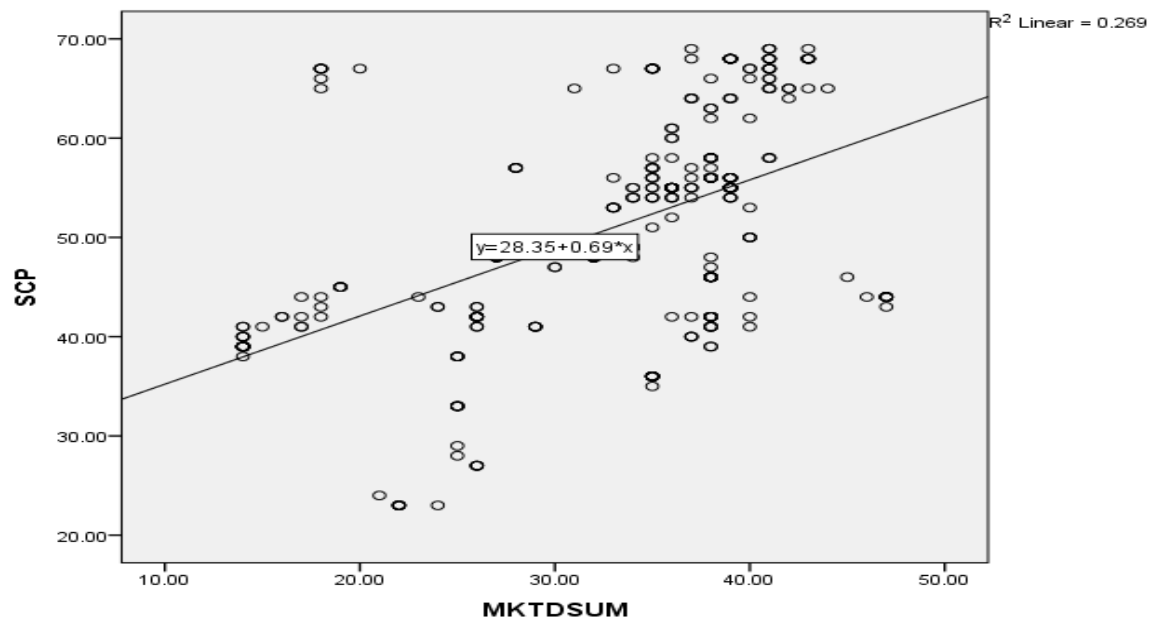
Figure 3: Linearity between Marketing Diversification and Supply Chain Performance

Source: Field Data (2019)

a) P-P Plot for Marketing Diversification.

The P-P plot or graph generated when product diversification was measured against Supply chain Performance was as shown in figure 4;
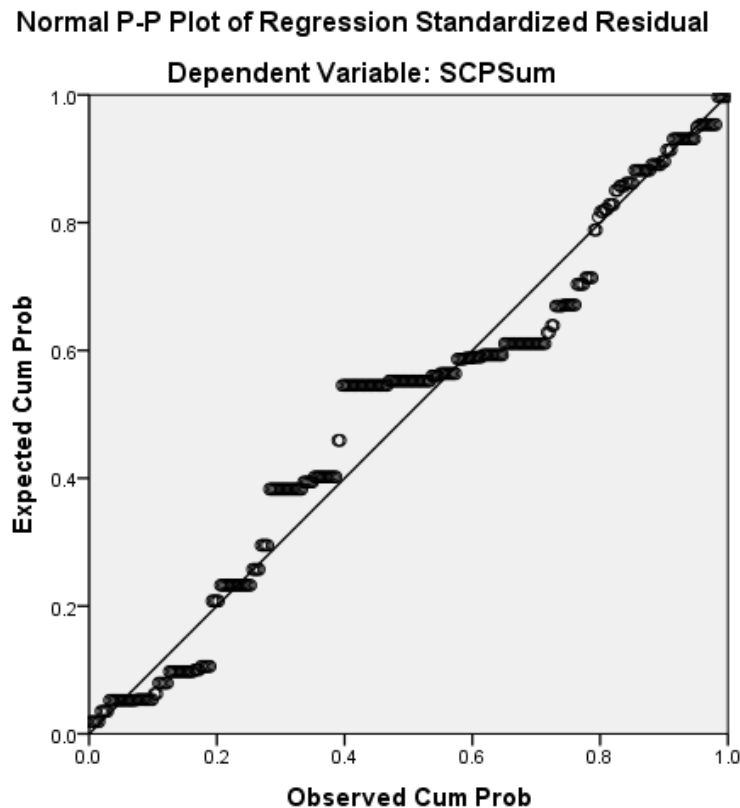

Figure 4: P-P Plot for Marketing Diversification

Source: Field Data (2019)

Figure 4 indicate that the data collected on marketing diversification for this study was normally distributed, since most of the observed values are spread very close to the straight diagonal line and some of them even falling within the line.

Marketing Diversification has also a moderately strong positive and significant association with Supply Chain Performance(r=0.519). The association means that managers of the sugar firms can increase supply chain performance by diversifying their market strategies. They may find new users of the Products they manufacture and newer channels of distributing Products. This result is in agreement with Okuom (2013) who concluded that business Diversification of Sony Sugar Company improved their performance significantly. However Afza Slahudin and Nazir (2012) found no significant improvement in firm financial performance for firms that diversified their operations and markets compared to those that did not

a) Regression Analysis for Market Diversification

Table 4: Simple Regression Model for Market Diversification

Model Summary[b]

| Model | R | R Square | Adjusted Square | RStd. Error of theR Estimate | Change Statistics | | | | | | FDurbin- |
					R Square Change	F Change	df1	df2	Sig. Change		Watson
1	.519[a]	.269	.267	9.50359	.269	130.174	1	354	.000		1.567

a. Predictors: (Constant), MKTDSUM

b. Dependent Variable: SCP

Source: Field Data (2019)

From findings in Table 4, the value of R-Square is 0.269. This implies that 26.9% of variation of supply chain performance is explained by market Diversification alone.

Table 5: ANOVA Table for Marketing Diversification

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	11757.088	1	11757.088	130.174	.000[b]
	Residual	31972.674	354	90.318		
	Total	43729.761	355			

a. Dependent Variable: SCP

b. Predictors: (Constant), MKTDSUM
Source: Field Data (2019)

From the findings in table 5 at 0.05 level of significance the ANOVA test indicated that this model is valid in explaining supply chain performance as indicated by F value of 130.174 (df =1, 354) significance value=0.000 which is less than 0.05 level of significance. The implication of these result is determined by eta square which is the ratio between regression sum of squares to the total sum of squares =0.269 or 26.9%. This value according to Cohen (1988) guidelines is of major practical significance.

Table 6: Regression Coefficients for Marketing Diversification

Coefficients[a]

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.	95.0% Confidence Interval for B Lower Bound	Upper Bound	Correlations Zero-order	Partial	Part	Collinearity Statistics Tolerance	VIF
1 (Constant)	28.354	2.053		13.812	.000	24.317	32.391					
MKTDSUM	.686	.060	.519	11.409	.000	.568	.804	.519	.519	.519	1.000	1.000

a.   Dependent Variable: SCP
Source: Field Data (2019)

From Table 6 the study reveal that Marketing Diversification had a significant predictive effect on supply chain performance (t statistic=11.409, p-value=0.000). Therefore, at 5% level of significance the null hypothesis is rejected. It means that when Marketing Diversification is improved by a unit then supply chain performance would increase by 0.686 units.

Further these findings are supported by other similar studies (Harzing, 2010; Markides & Williamson, 2014; Mbithi & Rambo, 2015; Sulaimon & Olufemi, 2018). Markide & Williamson (2014) found that firms could gain significant advantage from adopting marketing diversification. Mbithi, et al (2015), concluded that new market segments had significant influence on sales volume and total turnover this was as a result of increased market share which eventually increased the firm's profitability. Sulaimon & Olufemi (2018) deduced that a significant relationship exists between marketing diversification and organizational performance.

Effect of Marketing Diversification on Supply Chain Performance of Sugar Manufacturing Firms in Kenya

Marketing diversification is a preferred strategy pursued by the sugar firms following from the high overall mean value of 4.0 out of a maximum of 5.0. The respondents stated the sugar firms have expanded their markets beyond their traditional customers. However one of the major weakness noted they possess is the limited ability to negotiate with upstream suppliers. A correlation and regression analysis reveal that the relationship between marketing diversification and supply chain performance is positive fairly strong and significant (r=0.519). This is consistent with existing literatures that posit that market diversification is a source of competitive advantage.

Expanding markets and niche reduces risk associated with fluctuating demand and changing customer taste and preferences. A simple regression model establishes that all else remaining the same, one unit increase in marketing

diversification would increase supply chain performance by 0.686 units. This explanatory variable independently explains 26.9% of the variability of supply chain performance. The sign of the regression coefficient is supported theoretically.

5. CONCLUSION

Marketing diversification is also important because an expanded market increases sales and revenue. However, marketing diversification as a strategy is imitable thus cannot be the basis for competitive advantage. Since sugar is a highly standardized commodity means customers have a wide range to choose from.

Suggestion for further research

A case study based on product diversification and marketing diversification should be conducted. For instance, it would be prudent to compare the findings of state owned sugar manufacturing firms and privately owned sugar manufacturing firms.

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