

Country Study Documents

Kenya Country Study

Background

International Context & Political and Economic History

Kenya's international context can be viewed as falling in concentric circles, starting with its neighbours in East Africa, and extending to the Common Market for Eastern and Southern Africa (COMESA), Africa, and the globe. At each level are institutions, relationships, and organisations that individually and collectively affect the performance of Kenya's companies. A description of the full range of these is beyond the scope of this brief paper, but a few examples will illustrate the point. Food-processing firms wishing to export must take into account, not only Kenyan food handling regulations, but also the phytosanitary regulations of their proposed export destinations. Manufacturers of food processing machinery who supply local, regional, and international markets will face different opportunities and challenges.

At independence in 1963, Kenya adopted a multi-party political system comprising several political parties and federal system of governance. However, this was dismantled through amendments of the constitution to provide for a strong and centralized executive under the presidency in 1964, as well as the banning in 1969 of the only opposition. The subsequent transition from an authoritarian one-party state to a multi-party system has been one of most important features of political development in the country since independence (Kanyinga, 2007). Since the re-introduction of a multi-party system in 1991, general elections have been marred by serious political violence fomented by militia organized by the ruling party. The post-2007 election violence that resulted in over 1,300 deaths, displacement of over 600,000 persons and destruction property worth billions of shillings is one in a series of reversals of democratic gains that Kenya has witnessed since independence. Kenya's volatile political environment remains one of the stumbling blocks for business (Economic Intelligence Unit 2009, World Bank 2010). Kenya promulgated a new constitution in 2010 after nearly two decades of debate. A key feature of the new constitution is its creation of a devolved structure of government with both central and county levels. This structure may have implications for the Kenya's industrial development.

Kenya at its independence, adopted a mixed economic structure that allowed for the development of the private sector, including manufacturing industries. The next four decades saw varieties in the country's policy and strategic directions, but growth of the manufacturing sector, particularly food processing and related sectors remained on the country's agenda throughout.

Recent policy documents, including the *Economic Recovery Strategy for Wealth and Employment Creation* (Kenya 2003) and the *Kenya Vision 2030* (Kenya 2008), have reiterated the country's commitment to expand tourism, trade and industry as part of Kenya's overall development strategy. *Vision 2030* stresses the importance of the manufacturing sector and identifies food processing as the most important single sub-sector in terms of its contribution to GDP (28.7%) and manufacturing-sector employment (34.5%). *Vision 2030* also aims that Kenya will increase its share of Kenyan products in the regional market. Both processed foods and basic food processing machinery are good contenders for that increased penetration.

Food processing consists of multiple value chains beginning with agricultural production and reaching into domestic, regional, and global markets. An important element in these chains is the supply of machinery for processing different products for different markets. Although Kenyan

firms, especially the large producers, import machinery, there is also significant local production. This research will, therefore, investigate successful firms in the two related industries of food processing and the manufacture of food processing machinery.

In published statistics food processing is grouped with beverages and tobacco, and the combined total in 2008 was Kshs 58.6 billion, or about 2.8% of GDP. The Kenya Association of Manufacturers estimates that the food processing industries account for approximately 50% of manufacturing production turnover. Precise data on manufacture of food processing machinery is not readily available, but the larger category of 'equipment manufacture' accounted for Kshs 6.6 billion, or 4.4% of Kenya's manufacturing value added in 2005.

Socio-economic Profile of Kenya & Business Climate

Kenya is a medium-sized country both in terms of geographic area and population. Kenya's geographic area is 592,909 square kilometres, with a population estimated at 39 million persons. The country's geographic size, however, is misleading. Although the Kenya depends heavily on rain-fed agriculture, only about 20 per cent of the land mass is suitable for growing crops. This means that non-farm employment and business activities are increasingly important as means of livelihoods for the population in both rural and urban areas. Kenya's Gross Domestic Product (GDP) of Kshs 2,100 billion translates into roughly US\$1,542 per person in purchasing power parity. According to the United Nations Development Programme (UNDP), Kenya's Human Development Index (HDI) falls at the lower end of the medium human development category (UNDP 2009).

The two sectors chosen for investigation -- food processing and the manufacture of food processing machinery -- are diverse in terms of size and linkages. They consist of micro, small, medium, large and very large firms, which form a pyramidal structure with three tiers (see McCormick, et al. 2007). The base of the pyramid is occupied by the micro and small enterprises (MSEs) that produce mainly for the domestic market. The MSEs are the backbone of production in Kenya, producing mainly for the domestic market. The second tier consists of medium to large formal firms that produce mainly for domestic and regional markets. The third tier, the peak of the pyramid, contains large and very large firms catering for the export market. Large and small scale firms in these two sectors are linked in various ways (McCormick and Atieno, 2002; Okech et al. 2007).

Kenya's business climate has not been favourable in the recent past. According to the World Economic Forum (WEF) (2010), Kenya's was ranked 106th out of 139 countries included in the survey, with a Global Competitiveness Index of 3.65. This is a decline from the 2009 ranking where Kenya had a GCI score of 3.7 to be ranked 98th position. In terms of institutional capability, infrastructure, macroeconomic stability, Kenya was ranked 123rd, 102nd and 128th position, respectively. Some of the impediments to business climate include corruption, inefficient government bureaucracy, policy instability and inadequate supply of infrastructure. Kenya is ranked 78th out of 183 economies surveyed (World Bank, 2010).

Project Objectives and Research Questions

The overall objective of the joint research is to investigate how and why local firms manage to gain competitiveness and grow successfully under challenging market and institutional conditions. The study conceptualises "firm success" as a continuous variable with multiple dimensions. The study focuses on food-processing and the manufacture of food processing equipment. Both sectors have foreign and local firms. For purposes of this study, we will consider a foreign firm to be one that

has significant (25% or more) foreign ownership and input into management. A local firm, on the other hand, has a predominance of Kenyan ownership and management.

We propose to explore four interrelated questions:

1. What are the main internal factors that appear to have contributed to the success of local firms in the food processing and manufacture of food processing machinery sectors?
2. What are the main external factors that appear to have contributed to the success of local firms in the food processing and manufacture of food processing machinery sectors?
3. How have the firms dealt with the challenges posed by the Kenyan, regional and international environments?
4. Is there any discernible difference in the strategies adopted by more and less successful local and foreign firms?

Our main hypothesis is that successful firms develop and grow by continuously aligning their resources and capabilities to the changing market situation (key economic factors such as labour conditions, value chain requirements and trade issues) and institutional conditions (networks, personal and political alliances). A second hypothesis is that foreign firms operating in Kenya differ in their strategies from successful local firms.

Methods

Study Area & Research Design

Kenyan industry is disproportionately located in Nairobi and its environs. According to Government statistics, 56 per cent of all formal medium and large enterprises are located in Nairobi and its surrounding areas (Kenya 2006). The remainder are in the Coastal region (20 per cent) and other towns (24 per cent). The recently delineated Nairobi Metropolitan Area forms an appropriate study area because it captures a large and diverse firm population that can be easily accessed from the University of Nairobi Main Campus.¹

The research will consist of two main parts: a mapping and survey of 100 food-processing and food processing machinery manufacturers and a set of 20 case studies of firms of varying levels and patterns of success drawn from the survey cases. In addition to company interviews, data collection will entail key-informant interviews with senior staff of relevant public and private sector institutions. Documentary research will also be undertaken to review policy documents relevant to food processing and the manufacture of food processing machinery sectors in Kenya.

Sampling & Survey

We will identify the population of food processing firms and food processing machinery manufacturers in three steps. First, we will carry out a set of key informant interviews with officials in Government (Ministry of Industrialisation, Ministry of Trade, and Ministry of Science and Technology) and the private sector (associations such as the Kenya Association of Manufacturers, Kenya National Chamber of Commerce, and sectoral associations) with the aim of familiarising ourselves with the range of activities in the two sectors and obtaining their lists of firms. We will then visit the local authorities of Nairobi and the surrounding towns to access the data bases of registered businesses in the two sectors. Finally, we will merge the lists obtained for each sector

¹ The Nairobi Metropolitan Area encompasses the City of Nairobi and surrounding towns and rural areas. The main towns are Machakos, Limuru, Kikuyu, Ruiru, Thika, and Athi River.

into full sectoral lists. We will drop from the lists multi-national firms and micro-enterprises. The remaining firms, which include small, medium, and large local and foreign firms in the two sectors, will form our sampling frame.

For the food processing sector, we will use these lists and the results of our key informant interviews to identify the five most important processing activities and/or product groups for investigation. We have tentatively identified these as processing of horticulture products, fruit juices, grain milling, bakeries, and producers of snack foods, but we expect to modify these categories based on further information. We will randomly select ten firms from each group for interview. We will carry out a similar process of identifying the five most important activities or products among the food processing machinery manufacturers and randomly selecting ten firms from each group for inclusion in the sample.

We will administer a structured questionnaire to the owner of each business, using face-to-face interviews. The questions will be designed to gather firm-level data on the indicators of success and the main factors believed to explain that success. In the first category are the five main aspects of success: financial, market, managerial, human resource, and technological innovation. The second category includes firm history, past and present strategies, resources, and interactions with external actors. To supplement the data from the questionnaire we shall collect photos, brochures, and published reports of each business.

Case Studies

Twenty case studies will be selected from the sample of 100 firms, using a panel of four researchers as a selection committee. Each panel member will select ten cases food processors and ten food processing machinery manufacturers. All of those selected must meet the criteria established in the project methodology for minimum age, minimum size, and formal registration. The panels will examine the cases with the aim of identifying a set of case studies that captures the variety of activities in the two sectors, as well as the full range of variation in degrees and patterns of success (See Project Document for details). It is hoped that the cases will also reveal a range of strategies used by successful firms. Any case selected by more than three panel members will automatically be included. Consensus will be used to select the rest.

Data collection will consist mainly of in-depth face-to-face interviews of each company's senior management. The PhD student who will double up as the project assistant will take interview notes which she will later present to the researchers for review and correction. Case-study interviews will focus on the interactions between internal and external success factors, reasons for any changes in strategy, and the direct and indirect impacts of the institutional environment on firm performance. Researchers, usually in groups of two, will carry out multiple interviews in each company, spread over the entire five-year project period so as to track changes in the companies' operations, status, and strategic directions. Case study data will be analysed thematically, using themes derived from literature and the success factors identified in the survey. Single case and cross-case analysis will be used to assist in drawing final conclusions and policy recommendations. The comparison of foreign and local firms will be done through close examination of their strategies. The small number of cases will, of course, limit our ability to generalise from these findings.

Researchers

Prof. Dorothy McCormick, Institute for Development Studies, University of Nairobi

Dr. Paul Kamau, Institute for Development Studies, University of Nairobi

Dr. Jackson Maalu, School of Business, University of Nairobi
Ms. Patricia Aruwa - PhD Student

Outputs

The main outputs will be five IDS Working Papers, four journal articles, four policy briefs, 15 case studies, six MA Project Papers, and a PhD thesis.