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Effect of Accountability on the Competitive Advantage of the Sugar Industry in Kenya

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Abstract:- Small and big sugar companies are striving towards achieving a competitive advantage over rivaling companies in the sugar business market. The principles of corporate governance; transparency, accountability, responsiveness, equity and inclusiveness abound the different processes and how every company handles its competitive advantage in the sugar industry. Kenya's sugar industry performance has deteriorated from being the largest sugar producer in the region, to an importer of the same commodity. While there exist studies on the role of corporate governance, the inadequate findings prompted the study to further analyze the effects of accountability on the competitive advantage of the sugar industry in Kenya. Data was collected using questionnaire targeting 210 management staff of Mumias and Nzoia Sugar Companies. The study established that corporate practices positively affect competitive advantage at slightly above average (43.2%). The findings indicated that accountability significantly influenced service delivery at Mumias and Nzoia factories. The study recommends that sugar factories should work more in enhancing the corporate practices and meeting the needs and desires of the stakeholders, citizens included.

I. INTRODUCTION

Sugar industry in Kenya is run by Ministry of agriculture since independence and was not devolved to counties' agricultural departments (CoK, 2010). However, the government privatized the sugar mills and recommended for zoning. This approach did not involve farmers' representative bodies due to elite control by the government (David, 2019). Recently, the Foreign Agricultural Service Nairobi (2019) forecasted stagnant sugar production due to delayed privatization of the financial year 2020/2021 of Kenya's state-owned mills, inadequate investment in technology and poor cane quality.

There are many empirical data linking how corporates are governed and their competitiveness. According to Obange *et. al.* (2011), the policies of trade affects competitive advantage but according to Barasa (2015), illegal activities and programmes like corruption and financial embezzlement affects competitiveness negatively. Additionally, the analysis of the sugar industry by Akombo (2010) using Poter's Diamond Model, found that the consistent supply of raw cane affected competitiveness of the factories. Akombo (2010) identified the road network as a critical factor influencing the financial performance and ultimately the competitiveness.

A study by Huggins, Izushi, and Thompson (2013) found that the competitiveness of the sugar factories in the region was dependent on the enhancing conditions that enable the factories to compete favourably in given markets. Kalinda and Chisanga (2014) assessed the growth opportunities and challenges in the sugar industry in Zambia using value-chain approach. The Zambia industry spent the least cost in the industry while the growth in the industry presented the greatest potential and opportunities for diversification and job creation. However, the industry is inhibited by governance challenges including accountability, inclusivity and transparency.

Stephen (2015) observes that the sugar industry has a productivity problem of both farm and low sugar recovery while David (2019) posits that Kenya has the lowest cane yields in the COMESA region.

Kenya's sugar production has been on the decline for a decade now. The sugar produced in all the Kenyan factories is mill-white sugar or commercial raw sugar but not refined sugar (Calstus, 2018). The economic contribution of sugar output to the country's Growth Domestic Produce is stagnating at 10% since 2010 (Kenya Economic Survey, 2018) below the estimated 20% contribution by Kenya Vision 2030.

Nginyo, Ngui and Ntale (2018) investigated corporate governance practices and competitive advantage of Kenol Kobil identifying transparency, fairness and responsibility positively and significantly affecting competitive advantage strategy. Ndung'u (2015) studied the role of corporate governance as a strategy to improve performance of Kenyan listed companies with the findings revealing that corporate governance improved performance of listed companies. Wathanga (2017) researched on how corporate governance affects organizational performance using a case study of the dairy cooperatives in Kenya. The study findings revealed insignificant prediction of revenue per customer, ROA, or innovation. The above studies' findings have not satisfactorily brought out how corporate governance practices affect competitive advantage in Kenya's Mumias and Nzoia sugar industry hence creating the need for this study.

II. LITERATURE REVIEW

This is expressed through continuous provision of services of a company at a minimal cost or through products that are more competitive in terms of benefits than those offered by competitors (Akram, 2018). The ability of a company to outperform its competitors as Wright (2014) puts it, is as a result of basic unique attributes such as highly skilled personnel and access to natural resources (Akram, 2018).

According to Agriculture Strategies' article (2020), European Union and Brazil are the only two regions that produce sugar at international prices. Government intervention through efficient agricultural and public policies influences Brazil sugar sector (Eurostat, 2019). The European sector is concentrated with 7 companies that merge horizontally, vertically, and are linked through multinational alliances and other agreements (Lubos *et al*, 2015). This creates a complicated internal structure.

Brazil and Australia sugar industries benefit from favorable natural, economic and political determinants while the high opportunity costs, social and environmental requirements characterize the merits of greater effectiveness in the industry (Arlington, 2018). In the United States, adverse climatic conditions coupled with high opportunity costs make international competitiveness of sugar production inadequate (GAO, 2018). In Thailand and South Africa, the competitiveness of sugar industry is characterized by low social standards, low productivity, low wages and low environmental (International Sugar Organization, 2018). A bloc of German and French sugar industries controls the production capacities of their subsidiaries causing pressing dilemma as the two producers control the given quota (Common Market Organization, 2016) creating market imperfection (Patrick, 2015). Sugar beet capacities are very specific, protectionist and connected with former colonial powers especially UK. The production quota naturally eliminates weak and single companies. This is only applicable in European Union (Renata, 2015).

Production quota in America is strictly observed though it is being reformed with respect to 1968 regime but is a double system in Thailand (Agriculture Strategy, 2019). Brazil, the largest sugarcane producer, exporter and employer does not have any production limits nor lowest price and their movement across borders is unprotected. It is the inclusion of ethanol as fuel that helps regulate the industry (Eurostat, 2019). According to Watanabe (2014), firms integrate vertically when the enforcement contracts are weak. This keeps Brazil's sugar industry afloat in addition to technology.

Africa is a net importer of sugar. Sugar producing countries in Africa have a great potential for large scale production, minimal costs of production and its nearness to Europe (Hess, 2016). Global market has a restricted entry policy that requires African countries to apply for entry to their domestic market. (South Africa Sugar Baseline, 2010). To improve accessibility to global market, a Tripartite Free Trade Area was formed by merging the SADC (15 member states), COMESA (19 member states) and EAC (5 member states) with the membership overlapping (World Trade Organization, 2016). The sugar industry in Kenya continues to thrive because of the barriers to tariffs including import substitution industrialization. Stephen (2015) observes that the sugar industry has a productivity problem of both farm and low sugar recovery while David (2019) posits that Kenya has the lowest cane yields in the COMESA region.

Dittmara and Smith (2017) opine that accountability relates with restoration progress in relation to initial objectives and refining prescriptions in order to achieve competitive advantage. Deswarte (2014) posits that the sole responsibility of stakeholders regarding competitive advantage is to ensure their actions are accountable. This includes accurate presentation of the financial position of an organization and abiding with corporate laws (Ali, 2014). On the contrary, inaccurate reporting of financial statements can misguide investors and affect implementation of existing competitive advantage strategies (Fallatah & Dickins, 2012).

The European Union member state countries' stakeholder involvement is a dual system enabling accountability and control (International Sugar Organization, 2019). According to Jonathan, (2018), The Tereos Group (France) dictates the corporate practices of beet sugar in European Union market since it is the world's second largest sugar maker after SuedZucker of Germany, following the abolition of quota policy in 2017 and it directly initiated a sharp fall in sugar prices in the European Union market. The Tereos group had a financial debt, which attracted losses. As a concern over the Tereos financial issue, 70 out of 172 council members resigned, to protest at management strategy (Hamaide, 2018).

In response to the crisis, the Tereos Group conducted 15 meetings across regions to answer to the concerns of the representatives. However, when top managers raised concern over accountability of financial details, the board expelled them (Madalina, 2018). The SuedZucker Company is a co-operative but listed as a public company unlike Tereos. It is made of small powerful units that are accountable for the day-to-day operations to help on improving competitive advantage (Annual Report, 2019). The United States of America has an accountability body known as Government Accountability Office that makes inquiries on performance of sugar and corporate practices within the sector (GAO, 2019). Brazil's corporate practices are highly influenced by the government through lower loans, subsidy, annual targets, and continuous intervention (Patrick, 2013). Every sector is accountable for its practices to the government.

Tanzania uses an out-grower model (central to national government initiative) that singles out and differentiates small-scale sugar farmers from private developers. This model

weakens representation and accountability from the out growers at the expense of private developers thus singling out competitiveness (Sulle, 2017).

Kenya's sugar production is capital intensive and the leadership of the sector prefer access to other business opportunities in the value chain creating conflict of interests weakening accountability and affects competitiveness (David, 2019)

III. METHODOLOGY

The study adopted descriptive design as advocated by Miksiza and Elpus (2018) which embraces case study and observation approaches. The design sought in-depth analysis of generated data from a semi-structured questionnaire. The study utilizes both independent and dependent variables. The competitive advantage is the dependent variable with indicators such as increase in revenue, mass production and brand loyalty, a function of transparency, responsiveness, accountability, equity and inclusiveness. The study was undertaken at Nzoia Sugar Company located in Bungoma County and Mumias Sugar Company located in Kakamega County. The factories are situated in the sugar belt region obtaining their raw cane from the local farmers which makes them manage the costs of raw materials. The factories are managed by different managers each with different shareholders with Mumias being a public limited company while Nzoia is privately owned. The target population was from Nzoia Sugar Company, a private miller and Mumias Sugar Company, a public miller. Managers and staff from Finance, Marketing department, Human Resource, Repair and Maintenance and General Administration were picked from both Mumias and Nzoia sugar companies as the target population. The study adopted a questionnaire to collect the primary data.

IV. FINDINGS AND DISCUSSIONS

The findings show that the 39% of the respondents said that the organizations are responsible for their performance and responsive to the needs of the community through self-evaluation, Bi annual reviews and performance contracts while 61 percent did not support the statement. On the various aspects of accountability influencing competitiveness, the respondents gave varied responses as tabulated in table 1 below.

Table 1 Accountability Descriptive Analysis

Statement	Frequency	Mean	Std. Dev
Accountability demands responsibility from leaders and stakeholders' needs	96	4.39	0.786
Accountability is dictated by internal and external decisions	96	4.32	0.888
Accountability and transparency go hand in hand	96	4.32	0.888
Accountable organizations respond better to citizens' demands	96	4.31	0.921
Employee empowerment to demand accountability is context dependent	96	4.14	1.202
Average Score	**96**	**4.3**	**0.937**

Source: Research Data (2021)

The descriptive analysis of results for accountability statements show that the minimum number was 1 while the maximum number was 5 with aggregate mean of 1.20 and 5.00 respectively. The results also show that average response was 4.30 (agree) while the average standard deviation was 0.937 which is indicative that the respondents were in unison in their agreement that accountability influences the competitive advantage of the sugar factories. On whether accountability demands responsibility from leaders and stakeholders' needs, the respondents agreed on average (4.39) that accountability demanded responsibility from the leadership and with a standard deviation of 0.786, it shows that the response was relatively uniform. The respondents were also asked if accountability was dictated by the internal and external decisions, to which they all agreed (4.32) that indeed the decisions both internal and external influenced accountability within the sugar factories. The respondents also agreed that accountability and responsibility go hand in hand with an average response of 4.32 and at the same time, they agreed that accountable organizations responded better to the needs and demands of their customers (4.31). The respondents also agreed though not so uniformly, that employee empowerment to demand accountability depends on the context (4.14) with a standard deviation of 1.302.

The SuedZucker Company is a cooperative but listed as a public company unlike Tereos. It is made of small powerful units that are accountable for the day-to-day operations to help on improving competitive advantage (Annual Report, 2019). The United States of America has an accountability body known as Government Accountability Office that makes inquiries on performance of sugar and corporate practices within the sector (GAO, 2019). The findings of the study also concur with the findings of KIPPRA (2018) which did a comparative study on the cane farming and found that accountability is in everything that the firms do that is key and crucial for their competitiveness.

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Results show that accountability is significantly related to competitive advantage at β= 0.554; t= 7.181; p=0.001. This is an indication that there is a positivity effect of accountability practice on the competitive advantage of the industry at 95% confidence level. The results also proved that competitive advantage increase by 0.466 when a single unit of accountability practice is raised. Therefore, at $P<0.05$, the null hypothesis (H_0) is rejected implying that there is a significant effect of accountability on the competitive advantage of the industry.

Hence, in summation, accountability practice used in this research impacts on the competitive advantage of the sugar industry in Kenya. The study findings are consistent with Dittmara and Smith (2017) who opine that there was a statistical relationship between accountability and competitive advantage of the firm which related with restoration progress in relation to initial objectives and refining prescriptions

V. CONCLUSIONS AND RECOMMENDATIONS

The study concludes that for factories to be competitive enough they must ensure that they are more accountable to the stakeholders including the farmers who are the suppliers of raw materials for the factories, the government for the legal and financial management, the shareholders who require profitability and dividends for themselves as well as suppliers and any other creditors who need to be paid for their services to the factory. The employees are also very crucial for the success of the factories and thus their needs and desires must be met and sustainably be responded to their satisfaction. There is need also to embrace high technology for the entire process from farming, harvesting, processing and transportation to packaging. The study also recommends that the sugar factories should engage farmers and other stakeholders with cane knowledge and the international market as well as diversifying its outputs to also include the introduction of beet sugar.

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