

# **Effect of Market Development Strategy on Performance in Sugar Industry in Kenya**

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## **Abstract**

There is undeniable interest in the adoption of marketing strategy in almost all sectors of economies to counter growing local and global competition. This study investigates the performance implications of using majorly two market strategy approaches; developing new market segments and extending geographically. Specifically, the study uses a model in which market development strategy indicators are regressed on performance measures. The relationship between marketing development strategy and firm performance and given mixed outcomes with developing new market segments being found to have influence on sales volume and total turnover though not statistically significant while extensions into new geographical areas having influence in sales volume with statistically significant results. Based on the outcome both extending to new regions and developing new market segments does not result to increased profitability but increased market share which would eventually positively affect profitability. Rebranding, promotions, different quantity packaging enables accessing new segments of the market while opening outlets or agencies could boost extending geographically for sugar companies. This study contributes significantly to the current marketing strategy literature by examining how the two aspects of marketing strategies relates different performance measures in the context of sugar industry.

**Key Words:** Market development strategy, New market segments, New region Extensions, Total output turnover, Profitability after tax, Capacity utilization.

## **Introduction**

The performance of sugar companies in terms of volume of activity and production determines economic growth specifically in the sector and the Kenya's economy in general. The performance of sugar companies is pointer to the Kenya's economic development and GDP growth. Company performance is a function of many factors including the choice of strategy especially market accessibility and expansion. Market development strategy dimensions considered by the study will be accorded deeper statistical analysis in order to assist company managers to make sound decisions and develop internal initiatives to effectively and successfully implement the strategy within an ever changing macro-environment. This depiction is also intended to contribute significantly into the existing knowledge base in strategic management on the basis of which other researcher will make advancements in theory validation.

It can be observed that antecedent studies (Hansen and Wernerfelt (1989); Li, (1995); Rasheed (2004); Adeoye and Elegunde, (2012) have provided partial explanation on performance implications of strategy – performance. It was the researcher's argument that the Kenyan sugar industry presents a rather unique context which is expected to fundamentally influence the findings and conclusions of the study. Hence, this study extends the frontiers of knowledge by integrating industrial organization and resource based theories in assessing the relationship between market development strategy and company performance.

The study is confined to the sugar industry which is a subsector of the larger ministry of Agriculture. While many organizations are focusing on becoming more competitive by launching strategies, sugar companies are equally facing the same challenges given the crisis the subsector is currently experiencing and therefore forms an ideal context of the study. Second, the study focuses specifically on sugar companies in western Kenya which forms the greatest single block within which most of the sugar companies are found. Western Kenya sugar companies create convenience in data gathering and therefore posing an ideal context of the study. Thirdly, the study singles out senior and middle management as most applicable in seeking primary data as opposed to the entire staff population. Fourth, market development strategy will be confined to development of new market segments and extending to new geographical areas which are the most relevant in the study context.

## **Market development strategy**

Ansoff (1987) defines market development as taking current products and finding new markets achieved through opening up previously excluded market segments, new marketing and distribution channels and entering new geographic markets. McCarthy (1960) developed two possible methods of implementing market development strategy as moving the present product into new geographical areas and expanding sales by attracting new markets. Market orientation enables firms to produce offerings, which, relative to offerings by competitors, are perceived by markets to offer better value (Day 1994). Market orientation contributes to organizational effectiveness and researchers have recognized the importance of examining the

relationship between market orientation and competitive strategy (Slater and Narver 1994). The association between strategic orientation and performance varies depending on the type of performance measure used (Voss & Voss 2000). Customer orientation has the strongest association with competitive strategy and market performance according to (Kumar & Petersen, 2005). Study on market development suggested that business model and product market strategy are complements, not substitutes (Zott and Amit, 2007).

### **Statement of the Problem**

Continued existence of companies necessitates that they continually consider how market development strategy impacts on their company performance behaviours. How consistent their development of markets with its performance is expected to have implications in their survival of such companies. There is empirical evidence of the relationship between market development strategy on performance of companies. This study advances an argument that whereas companies may strive to achieve performance through other strategies, market development strategy can influence performance outcome by considering one, unexplored market segments and converting non user to users of the company products. Two, by reaching out new geographical regions and capturing either competitors market share or availing the products where there absolute absence of the product or substitute product. This study adopts a fundamentally different operational frame of the independent and variables and dependent variables. The study addresses two main questions. First, what is the effect of developing new market segments on the performance of sugar companies in Kenya? Second, to what extent can extension to new geographical markets influence company performance in the sugar industry in Kenya?

### **Objective**

The broad objective of the study is to determine the effect of market development strategy on the performance of sugar companies in Kenya region. Consistent with this broad objective, the specific objectives will include: To determine the extent to which developing market segments and extending to new geographical regions affects performance of sugar companies in Kenya. The study above answering the two questions will also seek to test the hypotheses  $H_{01}$ : There is no significant relationship between developing of new market segments and performance of sugar companies in Kenya.  $H_{02}$ : There is no significant relationship between extending to new geographical regions and performance of sugar companies in Kenya.

### **Theoretical Review**

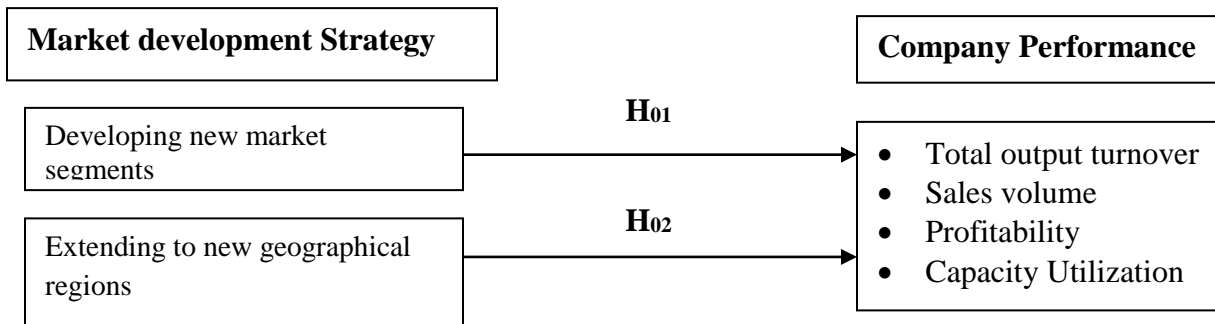
Industrial organization theory was adopted in the early fifties through the writings of Andrews (1952). The structure of a market, and how a market is functioning is the concept behind the industrial organization theory (Tirole, 1988). Industrial organization theory is about how a structure of market has an influence on the strategy and decision making of a company (Raible, 2013). Ramsey (2001) pointed that industrial organization theory is reflected in the structure-conduct-performance model, which claims there is a "causal link between the structure of a market in which a company operates, the organizational conduct and in turn the organizational

performance in terms of profitability. Industrial organization focuses on the whole industry and market conditions of a company and the central analytical aspect can be used to identify strategic choices, which firms have in their respective industries (Porter, 1981; Teece et. al., 1997).

Resource based theory has its origin from the work of Penrose (1959), though inadvertently the view was formerly presented by Wernerfelt (1984). He assessed the firm using resource-market matrices instead of the market share-growth combination of the competitive position view presented by the Boston Consulting Group (1972). In the place of emphasizing market entry barriers as a way of gaining a competitive advantage to increase returns, the resource-based theory stressed ‘resource position barriers’ as a means of increasing profits (Wernerfelt, 1984 and Barney, 1991). A resource based view (RBV) is one of the most widely accepted theories of strategic management (Powell, 2001). In terms of performance, resource may increase the firm’s capacity to charge high prices and thus contribute to performance by helping the firm to appropriate value linked to competitive advantage. Furthermore resources may be used to erect entry barriers and so increase performance at the industry level (Newbert, 2007).

**Conceptual Framework**

The study is guided by the following conceptual framework.



The conceptual model presents the perceived relationships as formulated for testing. The conceptual model shows the various relationships among the variables in the market development strategy - Performance. According to the model, Firm Performance is the dependant variable with both quantitative and qualitative as indicators is influenced product development strategy. Independent variable is presented by market development with its corresponding indicators; developing new market segments and extending to geographical regions.

**Empirical Review**

Chisanga, Gathiaka, Nguruse, Onyancha, and Vilakazi, (2014) did a study on competition in the regional sugar sector: the case of Kenya, South Africa, Tanzania and Zambia and later presented the paper at pre-ICN conference. The study which was basically empirical reviews found progressive liberalisation of global markets are likely to result in increased competitiveness in

the regional sugar industry as firms seek to grow their capabilities in order to trade globally. The study further showed that while firms have strategically positioned themselves in markets which are characterised by trade and investment incentives, the competitive outcomes in the region are more likely to be affected by protectionism (Chisanga et. al., 2014). The study fell short of exploring same industry similarly in other economies in Africa.

A study on strategic orientation and firm performance in an artistic environment building on the market orientation research was explored by (Voss & Voss, 2000). The study examined the impact of three alternative strategic orientations—customer orientation, competitor orientation and product orientation—on a variety of subjective and objective measures of performance in the nonprofit professional theater industry. The study instituted a two-stage research design in conjunction with Theatre Communications Group (TCG), a national service organization for the nonprofit professional theater field. To test the hypotheses, the study conducted a series of regression analyses that substituted the various performance measures as dependent variables. For each performance measure, the study conducted a hierarchical, moderated regression analysis that tests for independent and interaction effects for the hypothesized moderator. The results indicated that the association between strategic orientation and performance varies depending on the type of performance measure used (Voss & Voss, 2000). However, the most unambiguous result was that a customer orientation exhibits a negative association with subscriber ticket sales, total income, and net surplus/deficit. The study's focus on a single artistic industry limited the generalizability of the findings.

A Review of theoretical and empirical evidence, using a customer-level marketing strategy to enhance firm performance, Kumar & Petersen (2005) used data sources from several B2B and B2C firms to validate some of the empirical findings in previous research. The study looked at the theoretical and empirical evidence of seven key customer-level tactics a firm should consider when managing its marketing resources. Findings showed each of these tactics had been linked directly to the firm's performance in the literature and offered firms a way to use resources efficiently and effectively to streamline their marketing efforts (Kumar & Petersen, 2005). Even though the study sought to tie each of the seven aforementioned marketing tactics together to create an overall framework, it did not analyze how practical each of these strategies are given the variance in business types and product offerings.

Investigating the mediating effects of a firm's competitive strategy in the market orientation-performance relationship, Ge & Ding (2005) used descriptive statistics, correlation coefficients and reliabilities of the constructs together with mean scores on the three competitive strategies. Based on a sample of 371 manufacturing firms in China, evidence found that the three dimensions of market orientation exert different effects on competitive strategy and performance. Among them, customer orientation has the strongest association with competitive strategy and market performance. The results of structural equation analyses indicated that the mediating effect of competitive strategy is mainly revealed in innovation strategy, the most vital factor in creating superior value for the company in the emerging

market (Ge & Ding, 2005). Although this study provided interesting insights into the understanding of the market orientation-performance relationship in China, it relied mainly on the single key informant approach for data collection, which may cause a halo effect or common method variance. Secondly this study relied primarily on subjective measures of performance and thirdly this study did not examine the potential impacts of environment on the market orientation-performance relationship.

The study by Zott and Amit (2007) examined the fit between a firm's product market strategy and its business model. Data was collected on a sample of firms that had gone public in Europe or in the United States between April 1996 and May 2000. The study randomly sampled 170 firms on their business model characteristics and product market strategies. Analysis for the study was done through descriptive statistics, confirmatory factor analysis and partial least squares regression. The study manually collected dataset and found that novelty-centered business models—coupled with product market strategies that emphasize differentiation, cost leadership, or early market entry—can enhance firm performance. Data suggested that business model and product market strategy are complements, not substitutes (Zott and Amit, 2007). The study was however limited in addressing how business models evolve and in particular how they co-evolve with the product market strategy of the firm.

### **Research Methodology**

A cross-sectional survey research design was used in carrying out the study. A cross-sectional survey offers the opportunity to collect data across different sugar companies and test this relationship. With respect to the time period over which data will be collected, which will be one point in time across the various sugar companies, a cross-sectional survey was found appropriate. Further, it was ideal because the researcher intended to collect descriptive data that was accorded statistical treatment to allow for hypothesis testing to come up with objective conclusions (Cooper and Schindler, 2003). The target population of the research entailed nine sugar companies in Kenya. The selected industry is a sub-sector within the larger agriculture sector in Kenya. The population of this study comprises of both parastatal and private companies in the sugar industry in Kenya totaling to nine companies by 2014. These companies diversity formed a good representative in terms of size in production and capacity, age in terms of years of operation, location among others. Target respondents were senior and middle level managers holding senior portfolios relevant to the study in targeted companies. One hundred and twenty (120) respondents are targeted to fill the questionnaire and one from each company for interview questions.

The current research required that non-probability sampling approaches be used and in particular purposive sampling. According to Leedy and Ormrod (2005) purposive sampling is meant for a particular purpose, where people are chosen who are relevant to the research topic and who the researcher believes can provide the best information to achieve the objectives of the study (Kumar 1996). The study in its choice of respondents targeted members of senior management who bore the greatest responsibility in decision making. Data was

analyzed using a combination of both descriptive and inferential statistics. Since the primary research question is to investigate the impact of one set of two or more variables (performance indicators) can be predicted or 'explained' by another set of two or more variables (introduction of new products and improvement of existing products), multiple correlation were used as the statistical tool to analyze the multivariate relationships between product development strategy and performance.

In order to test the hypotheses, multiple regression analysis was conducted using performance as the dependent variable and product development strategy indicators as predicting variables. Regression analysis beta ( $\beta$ ) equivalent to the Karl Pearson Correlation Coefficient ( $r$ ) (Sekaram, 2003) was used to determine the effect of the independent variable on the dependent variable. The hypothesis was tested at 0.05% significance level, with 95% confidence, which is acceptable in non-clinical research works and was used to establish the relationship among the study variables and to test the formulated hypotheses. The logistic regression model for this study took the form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where Y = dependent variable (Company performance)

$\beta_0$  = Constant or intercept which is the value of dependent variable when all the independent variables are zero.

$\beta_{1-n}$  = Regression Coefficient for each independent variable

$\epsilon$  = Stochastic or disturbance term or error term

$X_{1-n}$  = Independent variable indicators

### **Results and Discussion**

A total of 120 managers in sugar companies in both public and private were targeted and to this effect 120 questionnaires were issued. Out of these 72 usable questionnaires were received back giving a return rate of 60%. These 72 questionnaires returned constituted 92% return rate from public sugar companies while 8% from private companies due to their restrictive company policies cited by respondents. The return rate in the current study was justified by Richardson (2005) who cited Babbie (1973) and Kidder (1981) when he stated that 50% is regarded as an acceptable response rate in social research surveys.

The objective of the study was aimed at determining the extent to which market development strategy affects performance of sugar companies. Market development strategy is a choice strategy in companies which indicates the level in which products and services are extended to new geographical areas or developing of new market segments through conversion of non users to users. Ansoff, (1987) cited market development strategy in his product/market matrix as an approach of organizational growth. This was determined by citing the number of such new regions reached and also new market segments achieved. The results are further presented in the following sub-thematic areas.

### **Adoption of new market segments**

The sub theme means converting previously non users to users achieved by succeeding in accessing consumers either previously not using your product or consumers using alternative products. The respondents were asked to state the number of such new market segments achieved with in the past five years and the results were presented in table 1

**Table 1: Developing new market segments**

<b>New market segments</b>	<b>Respondents Frequency (f)</b>	<b>Percentage (%)</b>
No new market segment	10	13.9%
Single market segment	26	36.1%
Multiple market segments	36	50%
<b>Total</b>	<b>72</b>	<b>100.0%</b>

Multiple market segments were accessed (50%) meaning there are new segments of the market previously not using sugar product. From the respondents' point of view majority of the previous non users were low income earners who could afford the highly packaged quantities like 1kg or 2kg and therefore had opted to do without. With smaller quantity packages introduced within the five year span of time more consumers were achieved still maintaining the higher quantity packaging to keep the existing users of the product. Conversions to users indicate that an organization is tapping into either competitors market or untapped segment of the market and therefore a significant growth dimension though the finding contradicts the outcome of the study by Langerak, Hultink and Robben (2004) who concluded that such market orientation has no direct relationship to organizational performance.

### **Extensions to New Regions**

Extensions to new geographical regions is a sub theme of market development strategy meant to determine the level at which the companies have managed to access new regions with their products and services. To assess new geographical regions, the respondents were asked to indicate the nature of extensions their companies' products have been extended to in the last five years. The results are summarized in table 2 below.

**Table 2: Extensions to New regions**

<b>Nature of geographical Extension</b>	<b>Respondents Frequency (f)</b>	<b>Percentage (%)</b>
No new regions reached	9	12.5%
New regions nationally	63	87.5%
New regions internationally	0	0%
<b>Total</b>	<b>72</b>	<b>100.0%</b>

From the table 2 overwhelming majority of respondents (87.5%) indicated that their companies had extended their products and services to multiple regions within the country while only



12.5% of the respondents considered their companies not to have reached any extra new region at all. Further findings through interview showed opening up more distribution channels through agencies and promotions has contributed in extending new markets regions to the companies' products. Ojo (2009) confirms in his study when he recommended that companies should engage in geographical market extensions which he found to impact performance positively. Investment in market orientation improves organizational performance through launch activities (Langerak, Hultink, and Robben, 2004) while a study by Hassan, Qureshi, Sharif and Mukhtar (2013) on impact of marketing strategy creativity found that marketing strategy effectiveness affects positively and significantly performance in manufacturing sector of Pakistan.

The research used multiple linear regression analysis to determine the linear statistical relationship between the independent and dependent variables for this study. All the two null hypotheses were tested using the multiple regression models. The aim of multiple regression analysis was to identify these variables simultaneously associated with a dependant variable and to estimate the separate and distinct influence of each variable on the dependent variable. Multiple regression analysis explained and predicted variation in a dependent variable because of independent variable which was assessed using coefficient of determination ( $R^2$ ). Standardized Beta coefficients ( $\beta$ ) for each variable allowed the researcher to compare relative importance of each independent variable. For each hypothesis, the regression equations were first obtained using the beta coefficients on the line of best fit. The decision rule was to reject  $H_0: \beta_i = 0$  if the regression coefficients are significantly different from zero and consequently accept the alternate hypothesis  $H_a: \beta_i \neq 0$ .

**Hypothesis 1 ( $H_{01}$ ): There is no significant relationship between development of new market segments (NMS) and performance (CP) of sugar companies in Kenya.**

**Hypothesis 2 ( $H_{02}$ ): There is no significant relationship between Extension to new regions (ENR) and performance (CP) of sugar companies in Kenya.**

The model was tested to find out it was valid in predicting determinants of company performance (dependent variable). The results of ANOVA tests in which F-test was carried out using the Analysis of Variance (ANOVA) to determine whether the regression model  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$  where;  $X_1$ – new market segments,  $X_2$ – ext. to market regions were significant.

**Table 3: Regression Results on the Relationship between market development strategy and company performance**

Market development strategy indicators	R <sup>2</sup>	β value	T value	Sig.	Performance Measure
New market segments	0.086	0.175	1.523	0.132	Sales volume
Extension to new market regions		0.228	1.983	0.041	
New market segments	0.020	0.131	1.096	0.277	Capacity utilization
Extension to new market regions		-0.045	-0.374	0.310	
New market segments	0.056	0.121	1.037	0.303	Total turnover
Extension to new market regions		-0.197	-1.679	0.098	

P<0.05

From the table 3 above coefficient of determination (R<sup>2</sup>) indicates that market development strategy can predict 8.6% of company performance when measured in terms of sales volume 2.0% is the predictive power when performance is measured in terms of capacity utilization. 5.6% variances in company turnover can be explained by market development (R<sup>2</sup>). Statistically reliable relationship were found between extension to new market regions and sales volume (p value is 0.051 < 0.05) which fails to confirm hypothesis 2 that there is no significant relationship between Extension to new regions (ENR) and performance (CP) of sugar companies in Kenya while hypothesis 1 is confirmed since new market segments tested against all aspects of performance are not statistically significant (p values are > 0.05). The results further show that for every unit change in extensions to market, there is a 0.228 (β value) unit change in sales volume when all other factors are held constant.

The results can lead to conclusions that market development strategy has significant predictive influence on performance in terms of sales volume specifically when markets are pursued by companies through accessing markets in new geographical regions while developing new market segments has no statistical significance (p value 0.132 > alpha value of 0.05). Other measures of performance like capacity utilization and total turnover do not reflect any statistical significance with p values above alpha 0.05 though both can be predicted by market development strategy (R<sup>2</sup> 0.020, 0.056).

The findings can draw conclusions that extensions to new market segments which involve capturing consumers not previously using the product and also reaching out to new geographical areas can influence companies' capacity's utilization by 8.6% and sales volume by 5.6%. The level of significance is low and therefore for market development strategy alone cannot be a strong contributor to performance in sugar companies other factors need to be considered. This study therefore partially agrees with some previous studies which have linked market strategy strongly with organizational performance like Langerak, Hultink, Robben (2004)

who found market orientation to have strong product performance while Kohli & Jawooski (1990) avered market oriented culture to enhance performance. The findings contradict the findings of Dekker, Groot & Schoute (2006) in studies that market development through customer quality are closely associated with cost efficiency performance. Gado's (2013) studies indicated a robust correlation between market innovativeness and performance levels though their study considered both market innovativeness in addition to relevant resources. The study out rightly differed with the findings of Luca & Gima (2007) which indicated market dynamism to have hindered financial relationships and technology dynamism. The study result is supported by industrial organization theory as advanced by Ramsey (2001) who pointed that there is a "causal link between the structure of a market in which a company operates, the organizational conduct and in turn the organizational performance in terms of profitability. Tirole, (1988) also arguing on the basis of Industrial organization theory pointed out that the structure of market has an influence on the strategy and decision making of a company further confirming Ramsey's views on market and performance.

### **Summary of the Findings**

The findings revealed that there market development strategy could explain variations in sales volume by 8.6% ( $R^2$  0.086), in capacity utilization by 2% ( $R^2$  0.020) and in total turnover by 5.6% ( $R^2$  0.056). The study further found that development of new market segments contributed more as a predictor positively to both sales volume and total turnover than extensions to new regions though not statistically significant with p vales > than alpha value 0.05. A more statistically significant relationship was found between extensions to new geographical regions and sales volume (p value = 0.041 < 0.05). the results further observe that market development strategy had significant predictive influence only in terms of sales volume while capacity utilization and total turnover though predictive were not significant statistically p values > alpha value 0.05)

Economic and political factors of macro environment were found to have moderating effects on performance in terms of company profitability by 12.5% and 10% respectively. The model was found to be statistically significant to predict performance with F statistic 3.266 being >  $F_{0.05}(2,69) = 3.07$ . The results imply that market dynamism whether through reaching new regions geographically or accessing untapped market segments does promote performance with resultant effects in capacity utilization. Opening up more distribution channels through agencies and promotions has been found to contribute in extending new markets regions to the companies' products.

### **Conclusions**

Market development strategy was operationalized as extensions of markets into new geographical regions and developments new market segments by targeting previous non users of the product. The findings can draw conclusions that extensions to new market segments which involve capturing consumers not previously using the product and also reaching out to new geographical areas can influence companies' capacity's utilization by 8.6% and sales

volume by 5.6%. The study verified that opening up more distribution channels through agencies and promotions has proved to be the current approach in acquiring new market regions without necessarily opening company outlets. Repackaging into different quantities was found to contribute in accessing new segments of the market previously not using the product. Statistically market development was found to influence sales volume by 8.6% ( $R^2 = 0.086$ ). The study therefore concludes that the market for sugar product is becoming competitive and saturated. The level of significance is low and therefore for market development strategy alone cannot be a strong contributor to performance in sugar companies other factors need to be considered. The situation is worsened by opening of more sugar companies and entry of foreign sugar into the market the companies are therefore bound to explore new markets both locally and regionally to enhance their performance.

### **Recommendations**

Most of the sugar companies are operating only within the country. While it is necessary to help in meeting the sugar deficit in the country's demand, under COMESA regulations there is room to export within the regulations laid down. This can only be possible if capacity utilization is fully achieved within the factory operations.

### **Areas for Further Research**

Success in organizational operations is determined by many factors strategy choice being one of them. The study explored market development strategy while strategies remain explored in either a similar industry context or other significant contexts. Other than exploring growth in markets, others key areas worth exploring include product dimensions, institutional structures, processes and operations in relation to performance dimensions other studies could explore moderating or mediating effects where environment plays a key factor of similar relationships.

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