DETERMINANTS OF STRATEGIC FORCES THAT SHAPE COMPETITION IN HANDICRAFT INDUSTRY IN KENYA

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ABSTRACT

The basis for crafting competitive strategies is understanding the forces that shape competition in a particular industry. The most widely used framework to understand the competitive forces is based on Porter's Five-Force model. The model provides an assessment of the determinants within the contending forces that shape competition in the industry and determine firm strategy. Using the model, this paper is designed to determine the use of Porter's Five Forces Model applicability in Kenya's handicrafts industry. The study used a quantitative approach and a cross sectional design; data was collected with use of semi structured questionnaires with the respondents being the CEO's, Corporate Strategy Managers and/or Marketing Managers of the sampled handicrafts companies. Descriptive statistics was used to obtain a general understanding of the handicraft industry, whereas inferential statistics was used to test the hypotheses and make generalizations of the findings. Statistical techniques that were used include mean scores, standard deviations and factor analysis. The major findings of the study were that out of the six forces (Porter's five competitive forces and government policies) five forces were highly rated as shaping competition in the industry. The overall conclusion drawn from the findings of this study was that Porter's (1980) Five Forces Model offered a strong linear relationship with competitiveness and therefore was found to be applicable in the handicrafts industry while government was considered as a separate contending force. The implication of this study will go along way to develop policy framework in the handicraft industry and create partnership between firms and relevant authorities in government

which will provide synergy in this sector. The same can also be replicated to the emerging markets in the world economy.

Key words: Competition, Handicraft Industry, Porter's Five Forces, Strategy, Kenya.

Background Information

The business landscape is today characterized by increasing rates of globalization and technological advancements posing significant challenges for organizations management (Wiley, 2003). The environment is increasingly turbulent and complex consisting broadly of the economy at large, population demographics, societal values and lifestyles, governmental legislation and regulation, technological factors, and the company's immediate industry and competitive environments (Thompson and Strickland, 2003). Few tasks are more challenging than to successfully compete in the current business arena. The extent and intensity of competition and the strict, complex legal and regulatory environments, together with the knowledgeable and demanding business and consumer markets, ensures that the organizations that succeed are truly worthy of the many and great benefits realized.

Organizations, whether for profit or non-profit, private or public have found it necessary in recent years to engage in strategic thinking in order to achieve their corporate goals. The environments in which they operate have become not only increasingly uncertain but also more tightly interconnected. This requires a threefold response from these organizations. They are required to position themselves strategically as never before, need to translate their insight into effective strategies to cope with their changed circumstances and lastly, to develop rationales necessary to lay the groundwork for adopting and implementing strategies in the ever-changing environment (Bryson, 1995). Managers should thus have a keen understanding of the company's strategic situation

In order to achieve their goals and objectives, it is necessary for organizations to adjust to their environment (Pearce and Robinson, 1997). Designing viable strategies for a firm requires a thorough understanding of the firm's industry and competition. The state of competition in an industry, which is rooted in its underlying economics, depends on the competitive forces that work to define and/or characterize the industry structure.

Forces outside the industry are significant primarily in a relative sense; since outside forces usually affect all firms in the industry, the key is found in the differing abilities of firms to deal with them. The economic character of industries varies according to a number of factors, namely: the overall size and market growth rate; the pace of technological change; the geographic boundaries of the market; the number and sizes of buyers and sellers; whether products are virtually identical or highly differentiated; the extent to which costs are affected by economies of scale; and the type of distribution channels used to access buyers. An industry's economic features are important because of the implication they have for strategy. For example, in capital intensive industries where investment in a single plant can run into millions, a firm can spread the burden of high fixed costs by pursuing a strategy that promotes high utilization of fixed assets.(Thompson and Strickland (2003). This paper has fundamentally adopted the use of Porter's Five Force industry analysis model as the conceptual framework

The Kenyan Handicrafts Industry

In Kenya the production of handicrafts makes significant contribution to the national economy. Many types of Kenyan handicrafts are known around the world, but of all these crafts, basketry, wood and stone carving may be the most famous. According to Export Promotion Council (EPC) (2007), many terminologies have been used to describe the products in the industry. They include handicrafts, gift items, artisanal products, and curios among others. Of all these, the use of the term 'artisanal products' was adopted by the UNESCO/ITC International Symposium on 'Crafts and the International Market: Trade and Customs Codification'. Accordingly, artisanal products were defined as those that are produced by artisans, either completely by hand, or with the help of hand tools or even mechanical means, as long as the direct manual contribution of the artisan remains the most substantial component of the finished product.

Using raw materials from sustainable resources the special nature of artisanal products derives from their distinctive features, which can be utilitarian, aesthetic, creative, culturally attached, decorative, functional, religiously and socially symbolic and

significant (Manila, 1997). Production of crafts in Kenya has over time undergone transition from being a cultural practice to commercial venture, which has quickly gained acceptance as a viable sector both locally and internationally. The traditional products which were produced as cultural activities grew from cottage industry and local consumption to commercial production for international markets. However, it is still the cultural appeal that has remained one of the strongest international marketing gimmicks (EPC, 2007). Development of this sector is articulated in various Government policy documents such as the Sessional Paper No. 2 0f 2005 on the Development of Micro and Small Enterprises discussed and adopted by Parliament in April 2005, the National Export Strategy (NES) 2003-2007, and the Economic Recovery Strategy (ERS) for Wealth and Employment Creation (2003-2007).

LITERATURE REVIEW

The Concept of Industry Structure

An industry is a group/collection of firms offering products or services that are close substitutes for one another (Porter, 1980; Pearce and Robinson, 2005). Individual industries may differ from each other according to the degree of competition among various buyers and sellers in each market (Lipsey, 1987). According to Porter (2008), industry structure grows out of a set of economic and technical characteristics that determine the strength of competitive forces in an industry. Porter says that industry structure drives competition and profitability.

The degree of competitiveness of the market structure refers to the degree to which individual firms have power over that market- power to influence the price or other terms on which their product is sold. Factors that have been used to classify industries because they influence behaviors and therefore performance of firms include the number of sellers; the degree of product differentiation; presence or absence of entry, mobility, exit, and shrinkage barriers. Others are cost structure, degree of vertical integration, and degree of globalization (Lipsey, 1987; Kotler, 1998; Porter, 1980; Pearce and Robinson, 2005). These market characteristics give rise to four known industry structure types namely, pure monopoly, oligopoly, monopolistic competition, and perfect competition

Industry Analysis

Industry analysis is an orderly process that attempts to capture the structural factors that define the long-term profitability prospects of an industry, and to identify, and characterize the behavior of the most significant competitor(Hax and Majluf (1996). It is the basis of intelligent planning (Pearce and Robinson (2005). It is a systemic process of gathering and analyzing information about an industry on a domestic and global scope. The analysis helps in determining the areas in which firms compete, defines what firms consider to be competition, and helps determine key factors for success as they pursue various opportunities. It provides a basis upon which firms evaluate and decide about their corporate goals and helps to develop insight into developing appropriate strategies.

Since the 1930s and 1940s, the traditional approach to analysis of industries was the Structure-Conduct-Performance (SCP) model (Brown, 1995). The SCP approach holds that there is an important relationship between structure, conduct, and performance. Firm and industry behavior depend on industrial structure, so once industrial structure is classified, conduct and performance can be readily deduced. The key components of an industrial structure are the number of firms industry, entry and exit condition, degree of product differentiation, the extent of vertical integration, the amount and quality of information available to firms, and the amount of risk.

In the 1960s and 1970s, however, a number of economists began to find problems with the SCP approach leading to the birth of the new industrial economics. The most serious problem with the SCP approach is the endogeneity question which concerns whether industrial performance is completely determined by industrial structure. The basic premise of SCP approach is that performance depends on conduct and structure. However, conduct is assumed to be dependent on structure and this implies that performance is determined by structure alone. The premise that industry structure determines industry performance implies the industry structure is

predetermined ("exogenous") and that managers and entrepreneurs only passively respond to the industrial environment. This is inconsistent with what is known about business people. They are constantly trying to shape the industrial environment to fit their needs.

SCP approach does not shed light on evolution of industrial markets. This is a key problem because competition is an evolutionary and historic process. By treating industrial structure as given, SCP analysis cannot take into account strategy and the multiple interactions among firms. According to Brown (1995), perhaps the key difference between SCP and the new industrial economics is the focus on strategy versus determinism. Traditional industrial economists believe that existing firms, markets, and production methods are a reasonable approximation of the most efficient adaptation of the existing technology that could be imposed by external order.

The important point is that this approximation comes about automatically without any intervention from policy makers, so there is little role for strategic behavior by businesspeople. New industrial economists hold a much different world view: instead of being driven by a deterministic force, the market economy evolves through the interplay of firms and policy makers, who try to control economic evolution- they innovate rather than yield to the industrial environment . Porter (1980) argues that the every firm competing in an industry has a competitive strategy, whether explicit or implicit, and that the essence of formulating a competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes.

Porter (2008) observes that understanding the competitive forces, and their underlying causes, reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time. According to Porter (2008), good industry analysis looks rigorously at the structural underpinnings of profitability. He argues that one of the essential tasks in industry analysis is to distinguish temporary or cyclical changes from structural changes. A

good guideline for the appropriate time horizon is the full business cycle for the particular industry. Accordingly, the point of industry analysis is not to declare the industry attractive or unattractive but to understand the underpinnings of competition and the root causes of profitability. Further the strength of the competitive forces affects prices, costs, and the investment required to compete; thus the forces are directly tied to the income statements and balance sheets of industry participants. Finally, Porter argues that good industry analysis does not just list pluses and minuses but sees an industry in overall, systemic terms.

In a nutshell, the purpose of conducting industry analysis is mainly to understand the forces behind industry performance in order to match strategy to industry conditions. This involves the identification of the opportunities and threats posed by the state of the industry so as to come up with the appropriate strategy, to determine what competitors are doing, what threats and opportunities exist, and whether the firm should enter, remain or exit an industry (Porter, 1980); hence the question of industry attractiveness. Thompson and Strickland (2003) quote Kenich Ohmae as saying that "analysis is the starting point of strategic thinking" and thinking strategically leads to good strategic choices based on a comprehensive strategic analysis.

Porter's Five Forces Model

Porter (1980) developed the Five Force industry analysis Model, which has a theory that there are five forces that determine competition in an industry. These forces form the basic characteristics of competition in an industry. Hence the strongest competitive force determines the profitability of an industry and its importance in strategy formulation. By far, the Five Forces Model, which forms the basis of this study, is the most influential and widely used framework for evaluating industry attractiveness.

Essentially, Porter (1980) postulates that there are five forces that typically shape the industry structure: intensity of rivalry among competitors, threat of new entrants, threat of substitutes, bargaining power of buyers, and bargaining power of suppliers. The five competitive forces reflect the fact the competition in an industry goes well beyond the established players. All the five forces jointly determine the intensity of industry

competition and profitability, and the strongest force or forces are governing and become crucial from the point of view of strategy formulation. To establish the strategic agenda for dealing with these contending forces and to grow despite them, a company must understand how they work in the industry and how they affect the company in its particular situation (Pearce and Robinson, 1997).

Empirical evidence

In Kenya, studies have been conducted that have focused on the application of Porter's Five Forces Model in some industries. In her study of the funeral industry attractiveness, Waithaka (2001), adopted the modified model advanced by Aosa (1997), which included three other additional forces (government, logistics, and power play) that were found to define the structure of the funeral industry. The same modified model has been applied by Oluoch (2003) in studying the perceived attractiveness of the freight and forwarding industry. Other studies that have adopted Porter's Five Forces Model include those of Nyale (2007) and Wachira (2008) in the mobile telephony industry and the insurance industry respectively.

The studies substantiate the view advanced by Osigweh, 1989; Hussey, 1990; Austin, 1991; and Aosa, 1997) that management is sensitive to the context in which it is practiced and that strategic management models advanced in developed countries where strategic management originated may not be directly applicable in developing African countries, Kenya inclusive Wiseman and Macmillan (as quoted in Aosa 1997) accepted Porter's model but grouped the five forces into three categories, namely: suppliers, customers and competitors. This new classification did not alter Porter's propositions. Wheeler and Hunger (1990) also agreed with Porter but wanted to include the sixth force, 'other stakeholders'. They argued that this new category would incorporate the relative power of unions, government, and other interested parties not specifically mentioned in Porter's model.

In addition, though Porter had included government as a potential entry barrier under threat of new entrants, they argued that government was very powerful and merited special mention as a separate strategic force. Porter (2008) agrees that no

structural analysis is complete without a diagnosis of how present and future government policy at all levels will affect structural conditions. The work of McFarlan (1984) also added an information technology (IT) dimension to the model by exploring the way that IT could be used to exploit or counter any of the forces. It was suggested that, by adding to products and IT content, which would create added value or reduce cost, it could make it more difficult for new entrants or substitute products to be successful. Also, using IT to forge links with suppliers and customers would increase the power of the organization within the market.

METHODOLOGY

The methodology presents a description of how the study was approached. It presents the plan of the research, that is, the research design, how data were collected and from whom, and the data analysis technique that was adopted to analyze the data in order to generate the findings of the study.

The study was carried out through a cross-sectional survey. This research design affords the researcher the opportunity to study part of the members of the population in order to make generalization about the phenomenon at one point in time. In adopting this design, the study sought to describe the structural characteristics of the handicrafts industry in Kenya by studying firms in Nairobi.

According to records at the Export Promotion Council (EPC), there were 315 Commercial Crafts Companies as at 30th April 2009 .These companies deal in all types of handicrafts which include wood and stone carvings, basketry, glassware, and leather ware among others.

The study used the sampling table developed by Bartlett, Kotrlik, & Higgins (2001) as the principle of determining sample size. The authors caution users to take into consideration the margin of error of 0.05 if acceptable in each study. In this study we selected the alpha level of 0.05 and t=1.96 this being an organizational research. Factoring in and adjusting for non responsive error a sample total of 100 Commercial Craft Companies was randomly drawn from Nairobi.

The study used primary data which were largely quantitative and descriptive in nature. The questionnaire was designed to solicit data on competitive forces that shape competition in the handicrafts industry in order to assess the applicability of the Porter's Five Forces Model in the industry. Respondents were presented with descriptive statements in a 5-point Likert scale on which they were required to rate by scoring the extent to which they perceived a particular statement is descriptive of the force in the industry. The questionnaires were administered through drop and pick method and respondents targeted were Chief Executive Officers or Corporate Strategy Managers of the companies. However, where such positions were non existent, marketing managers, and/or managers in charge of strategic planning in the organizations were targeted.

RESULTS AND INTERPRETATION

Factor analysis

Factor analysis was used in the analysis because of the concern of decomposing the information content in a set of variables into information about an inherent set of latent components/factors. This assisted in reducing a number of variables into fewer factors which are of similar characteristics.

The analysis was carried out and the results have been presented in terms of: KMO and Bartlett's Test (table 1), Scree Plot (figure 1), Total Variance Explained /Eigen values (Table 2), Rotated Component Matrix/Varimax (Table 3) and communalities (Table 4)

Examining correlation matrix

Since one of the goals of factor analysis is to obtain 'factors' that help explain these correlations, the variables must be related to each other for the factor model to be appropriate. If the correlations between variables are small, it is unlikely that they share common factors. Table of correlation matrix shows that almost half the coefficients are greater than 0.3 in absolute values (marked over 0.5). This means that we can go ahead with the analysis. This assertion was further subjected to the KMO and Bartlett's test.

Significance test

Using KMO and Bartlett's Test, P-value of 0.000 shows there is correlation between the variables

Table 1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.725
Bartlett's Test of Sphericity	Approx. Chi-Square	1949.423
	df	253
	Sig./ P-Value	.000

We set a hypothesis that,

Ho: Factor analysis cannot be used in analyzing determinants of strategic forces that shape competition in handicraft industry in Kenya.

Ha: Factor analysis can be used in analyzing determinants of strategic forces that shape competition in handicraft industry in Kenya. Significance level = 0.05

Decision rule: Reject Ho if P-value is less than Significance level

P-value = 0.000 is less than 0.05 (reject Ho).

We reject the statistical hypothesis since there is enough evidence to support the alternative (Ha), that is, Factor analysis can be used in determinants of strategic forces that shape competition in handicraft industry in Kenya.

Factor extraction

From the total variance explained table/Eigen values (a measures of the variance explained by factors), factor extraction have been done to determine the factors using Eigen values greater than 1. Factors with Eigen values less than 1.00 were not used because they account for less than the variation explained by a single variable. The rotated matrix was used to write the factor equations. The result indicates that 36 variables or forces that shape competition in the handicraft industry in Kenya were reduced into 5 factors. The five factors explain 82.552% (Cumulative percentage) of the total variation, the remaining 31 factors together account for 17.448% of the variance (each accounts for less than the variation explained by a single variable). The explained variation 82.552% is greater than 70% and therefore, the model with 5 factors may be adequate to represent the data on forces that shape competition in the handicraft industry in Kenya.

Table 2: Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	9.514	26.426	26.426	9.513539	26.426	26.426
2	7.068	19.634	46.061	7.068369	19.634	46.061
3	4.467	12.408	58.469	4.466924	12.408	58.469
4	3.843	11.675	70.877	3.843029	10.675	70.877
5	2.017	8.603	82.552	2.01704	5.603	82.552
6	.954	2.394	91.155			
7	.850	1.527	93.549			
8	.823	1.196	95.076			
9	.746	0.895	96.272			
10	.738	0.753	97.167			
11	.683	0.541	97.920			
12	.603	0.512	98.461			
13	.526	0.331	98.972			
14	.362	0.210	99.304			
15	.256	0.200	99.514			
16	.180	0.110	99.714			
17	.096	0.093	99.824			
18	.076	0.071	99.917			
19	.063	0.044	99.988			
20	.034	0.011	100.000			
21	.004	0.0109	100.000			
22	8.228E-16	2.285E-15	100.000			
23	6.398E-16	1.777E-15	100.000			
24	3.830E-16	1.064E-15	100.000			
25	2.766E-16	7.684E-16	100.000			
26	1.899E-16	5.274E-16	100.000			
27	7.159E-18	1.989E-17	100.000			
28	-7.859E-17	-2.183E-16	100.000			
29	-1.434E-16	-3.983E-16	100.000			
30	-2.950E-16	-8.194E-16	100.000			
31	-3.794E-16	-1.054E-15	100.000			
32	-4.513E-16	-1.254E-15	100.000			
33	-4.952E-16	-1.376E-15	100.000			
34	-6.339E-16	-1.761E-15	100.000			
35	-7.309E-16	-2.030E-15	100.000			

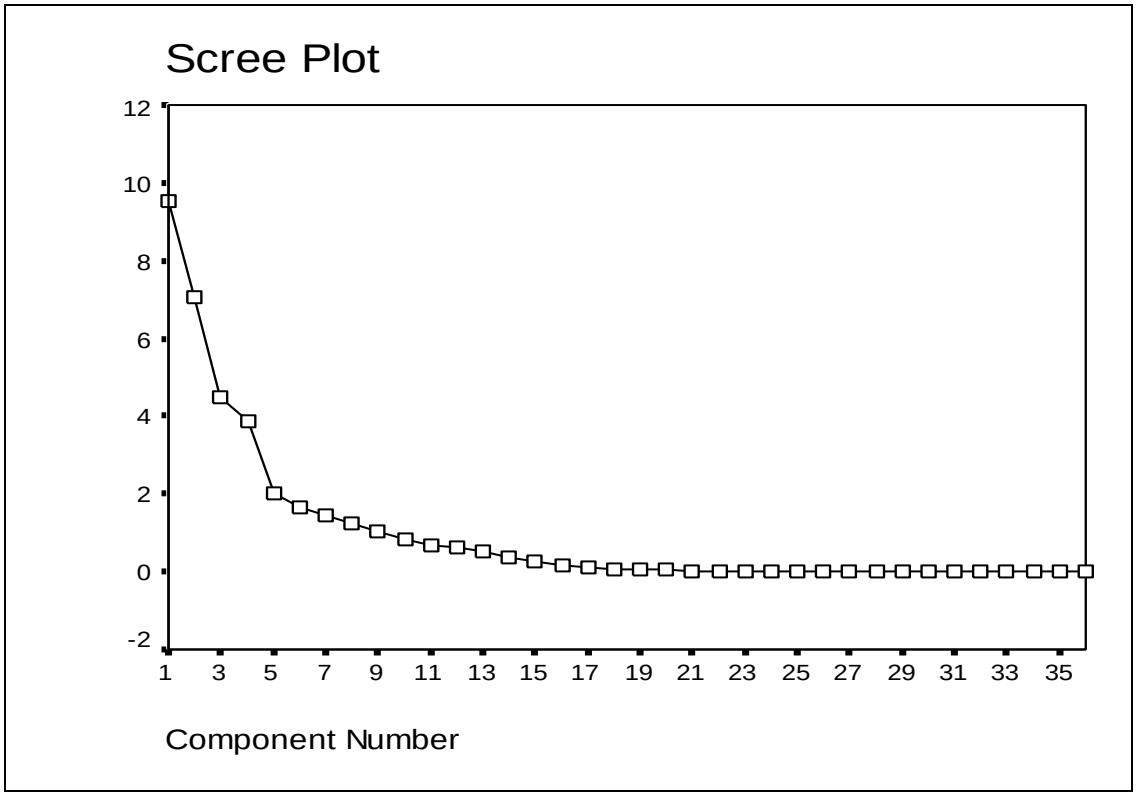
36	-1.304E-15	-3.624E-15	100.000			

Extraction Method: Principal Component Analysis.

Scree plot

Scree plot (Figure 1) is a plot of total variance associated with each factor and shows a distinct break between steep slope of the large factors and the gradually trailing off of the rest of the factors. This gradually trailing off is called the Scree. From the Scree plot, it again appears that a 5-factor model should sufficient

Figure 1: Scree plot



Rotation

The rotated component matrix is to transform the complicated matrix (initial matrix into simpler one) to make them more interpretable. The purpose of rotation is to achieve a simple structure i.e. we would like each factor to have non zero loading for only some of the variable so that we can easily interpret the factors. A factor loading of 0.5 has been used to determine the variable belonging to each factor.

Table 4: Rotated Component Matrix

		Component				
		1	2	3	4	5
Economies of scale	X1	**.625**	.300	-.272	.371	-.222
Relative price of substitutes	X2	.214	-.043	.291	.034	**.775**
Switching costs by buyers	X3	-.001	.204	.022	-.063	**.911**
Buyer volume (volume of business)	X4	-.049	.204	**.846**	-.067	.001
Capital requirements	X5	**.920**	.059	.180	.061	-.094
Price wars	X6	**.897**	.053	-.075	-.012	-.114
Industry growth	X7	-.110	**.651**	-.088	.234	.471
Buyer switching costs (low/high)	X8	-.118	.050	**.853**	.001	.098
Buyer information about what other firms are offering	X9	-.345	-.067	**.692**	.234	.196
Existing partnerships by competitors	X10	**.795**	.096	-.210	.172	.192
Number and size of firms	X11	.253	**.794**	-.013	**.659**	-.024
Product differences	X12	**.810**	.067	-.370	**.775**	.092
Brand identity	X13	**.656**	.231	.389	**.644**	.178
Product similarities	X14	-.345	-.020	**-.602**	.043	.034
Existing partnership	X15	-.004	**.874**	.396	**.701**	.260
Presence of substitute supplies	X16	-.025	.129	**.583**	**.608**	-.485
Supplier concentration (number and size)	X17	-.140	.025	**.688**	**.722**	-.032
Technology	X18	**.905**	-.109	.208	.150	.073
Buyer concentration (number and size)	X19	-.203	-.041	**.579**	.243	-.082
Expected retaliation	X20	**.762**	.168	.369	.172	-.015
Government regulation/policy	X21	**.720**	.320	.289	-.083	.049
High operating costs	X22	**.699**	.446	.134	-.072	-.321
Substitute products/services	X23	.200	.330	**.569**	-.224	-.233
Price Vs total volume of business	X24	.259	.404	**.637**	-.060	.273
Buyer profits	X25	.363	.286	**.654**	-.191	.089
Importance of volume of business to the supplier	X26	-.196	.178	.237	**.668**	.453
Informational complexity	X27	.049	**.870**	.182	-.024	-.197
Supplier differences	X28	-.083	.415	.053	**.739**	.448
Switching costs	X29	.144	**.934**	-.096	-.108	-.120
Exit barriers	X30	.041	**.759**	.025	.388	.087

Product numbers	X31	-.410	**-.666**	-.037	.101	.300
Impact of supplies on costs (low/high)	X32	-.327	.255	-.143	**.581**	-.138
Switching cost of suppliers (low/high)	X33	.040	-.018	.177	**.871**	-.200
Brand equity	X34	-.049	.067	.459	.392	**.706**
Diverse competitors	X35	.133	-.123	-.100	-.102	**.934**
Buyer propensity to substitute	X36	.063	.098	.035	.377	**.747**

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 10 iterations.

Factor interpretation

This involves grouping together variables that have large loadings for the same factors

F1= 0.625X1 + 0.920X5 + 0.897X6 + 0.795X10 + 0.810 X12 + 0.656X13 + 0.905X18 + 0.762X20 + 0.720X21+ 0.699X22

Factor one is made up of; Economies of scale, Capital requirements, Price wars, Existing partnerships by competitors, Product differences, Brand identity ,Technology , Expected retaliation, Government regulation/ policy, High operating costs. This Factor represents **Barriers to Entry/Threat of New Entrants.**

F2= 0.651X7 + 0.659X11 + 0.874X15 + 0.870X27 + 0.934X29 + 0.759X30 - 0.666X31

Factor two is made up of; Industry growth, Number and size of firms, Informational complexity, Switching costs, Exit barriers and Product numbers. This Factor represents **Rivalry among Competitors**

F3= 0.846X4 + 0.853X8 + 0.692X9 - 0.602X14 + 0.579X19 + 0.569X23 + 0.637X24 + 0.654X25

Factor three is made up of; Buyer volume (volume of business), Buyer switching costs (low/high), Buyer information about what other firms are offering, Product similarities, Buyer concentration (number and size), , Substitute products/services, Price Vs total volume of business, Buyer profits, Product differences and Brand identity. This Factor represents **Bargaining power of Buyers**

F4= 0.608X16 + 0.722X17 + 0.668X26 + 0.739X28 + 0.581X32 + 0.871X33

Factor four is made up of; Presence of substitute supplies, Supplier concentration (number and size), Importance of volume of business to the supplier, Supplier differences, Impact of supplies on costs (low/high) and Switching cost of suppliers (low/high). This Factor represents **Bargaining Power of Suppliers**

F5= 0.775X2 + 0.991X3 + 0.706X34 + 0.934X35 + 0.747X36

Factor five is made up of; Relative price of substitutes, switching costs by buyers, Brand equity, Diverse competitors and Buyer propensity to substitute This Factor represents **Threat of Substitutes**

Communalities

Total percentage of variance explained in a variable accounted for by the identified factors is referred to as the communality of the variable

Table 5: Communalities

		Initial	Extraction
Economies of scale	X1	1.000	.855
Relative price of substitutes	X2	1.000	.789
Switching costs by buyers	X3	1.000	.929
Buyer volume (volume of business)	X4	1.000	.961
Capital requirements	X5	1.000	.964
Price wars	X6	1.000	.957
Industry growth	X7	1.000	.937
Buyer switching costs (low/high)	X8	1.000	.802
Buyer information about what other firms are offering	X9	1.000	.888
Existing partnerships by competitors	X10	1.000	.894
Number and size of firms	X11	1.000	.818
Product differences	X12	1.000	.910
Brand identity	X13	1.000	.859
Product similarities	X14	1.000	.901
Existing partnership	X15	1.000	.936
Presence of substitute supplies	X16	1.000	.967
Supplier concentration (number and size)	X17	1.000	.959
Technology	X18	1.000	.937
Buyer concentration (number and size)	X19	1.000	.869
Expected retaliation	X20	1.000	.896

Government regulation/policy	X21	1.000	.824
High operating costs	X22	1.000	.943
Substitute products/services	X23	1.000	.841
Price Vs total volume of business	X24	1.000	.753
Buyer profits	X25	1.000	.870
Importance of volume of business to the supplier	X26	1.000	.808
Informational complexity	X27	1.000	.965
Supplier differences	X28	1.000	.952
Switching costs	X29	1.000	.959
Exit barriers	X30	1.000	.933
Product numbers	X31	1.000	.823
Impact of supplies on costs (low/high)	X32	1.000	.822
Switching cost of suppliers (low/high)	X33	1.000	.962
Brand equity	X34	1.000	.917
Diverse competitors	X35	1.000	.954
Buyer propensity to substitute	X36	1.000	.925

Extraction Method: Principal Component Analysis.

Government Policies

The government is a major stakeholder in any industry because of its role in defining the legal framework to guide and regulate the conduct of business. The government also plays a key role public policy formulation and implementation. It was the study intention to establish the extent to which government activity forms a separate contending force in the handicrafts industry. Study findings on the extent to which government policies have effect on operations of companies in the handicrafts industry and the nature such effect are presented in Table 6.

Table 6: Extent of effect of government policies and nature of the impact

	Response	**Frequency**	**Percent**
Extent of effect of government policies on Commercial handicraft Companies' operations in Kenya	Not at all	1	2.2
	Less extent	2	4.3
	Moderate extent	13	28.3
	Large extent	24	52.2
	Very large extent	5	10.9
	Non response	1	2.2
	Total	46	100.0

Nature of Government Impact on the Companies Operations	Positive	10	21.7
	Negative	11	23.9
	Both (50-50)	24	52.2
	Non-response	1	2.2
	Total	46	100.0

Government is a contending forces that handicraft companies would be forced to handle. The findings imply that in as much as the government was identified as part and parcel of the barriers to entry, the case is different in developing countries like Kenya. This is because the governments of developing countries still possess powers to impose regulatory measures that have an impact on the way firms in various industries in such countries operate.

CONCLUSIONS

The paper showed that all the forces shape competition in the handicrafts industry to different degrees. From the communalities table, the percentage of variance observed to be explained in each variable accounted for in each factor was shown to be quite significant with the lowest was at 75.3 % .

Research results on the role of government revealed that the government is a contending forces that handicraft companies would be forced to handle. The findings indicated that government policies have effect on the handicrafts companies' operations to a large extent. The findings imply that in as much as the government was identified as part and parcel of the barriers to entry, the case is different in developing countries like Kenya. This is because the governments of developing countries still possess powers to impose regulatory measures that have an impact on the way firms in various industries in such countries operate.

This paper has brought to light an understanding of the forces that shape competition in the handicrafts industry, which affects the attractiveness of the industry. The overall conclusion that could be drawn from the findings of this study is that among the

competitive forces that were investigated, five forces were found to shape competition in the Kenyan handicrafts industry. These forces include rivalry among existing companies in the industry, bargaining power of both buyers and suppliers, threat of substitutes, and government policies. The above analysis shows that forces that shape competition in the handicraft industry in Kenya can be analyzed by Porter's(1980) five forces; however it is necessary to incorporate the influence of government policies and relationship marketing concepts.

IMPLICATION ON POLICY AND PRACTICE

From the conclusion it can be observed that the porter's five competitive forces are still relevant in shaping competition in an industry setup, more specifically in the Kenyan handicraft industry. There is a need therefore that these forces be inculcated in the policy framework especially on the rules and regulations that governs their operations and performance within this vibrant sector of the Kenyan economy.

It is also paramount that a well structured private government partnership is enhanced to promote synergy in the management of the handicraft firms in Kenya and other emerging markets in the world economy..

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