



**EFFECT OF GROWTH STRATEGIES ON THE COMPETITIVENESS OF FIRMS IN KENYAN CEMENT INDUSTRY: A CASE STUDY OF EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED**

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**ABSTRACT**

*The business environment within which the cement producing firm East African Portland Cement Company Limited (EAPCC) operates has been vibrant and turbulent. Several changes that have had implications on EAPCC and other players in the industry have been witnessed in the past and are expected to influence companies' actions in the medium and long-term. The study seeks to get an insight, understand and be able to describe the attitudes and opinions on the growth strategies and their effect on competitiveness of firms in respect to the modern-day challenges such as the increased demand for cement. This research was guided by the following objectives: effects of product development, market development, market penetration and the degree of diversification on the competitiveness of companies in the Kenyan cement industry. The study adopted descriptive research design. The sample size for the study was 150 participants which is approximately 10% of the total population of 1472. To address the research questions, primary data was collected by use of questionnaires and complemented by that obtained from various secondary sources. The data was analyzed by editing the raw data to free it from inconsistencies and incompleteness. The data was coded to establish how possible answers would be treated by assigning numerical values to them. The study found out that that growth strategies had enhanced increased efficiency and increased the company's market share. However, the respondents were neutral on whether the growth strategies had enhanced increased production capacity, quality of the products and whether the company has been able to retain its key markets. The study concludes that the number of products and services the company have were not enough to keep it at a competitive edge in the volatile industry. The study also concludes that market development and diversification strategies have a positive effect on the competitiveness of EAPCC. The study recommends that the company should increase its products and diversify more as this would position it in a more competitive edge. The study also recommends that the company should continuously adopt modern technology in product development so as to enhance competitiveness of the organization.*

**Key Words:** Growth Strategies, Firms Competitiveness

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## **INTRODUCTION**

The aim of this chapter is to introduce a global & Kenyan perspective of the cement industry, an overview of the Kenyan cement industry and in particular the effects of growth strategies on the competitiveness of cement firms with a case study of East African Portland Cement Company. This chapter also entails a detailed problem statement inclusive of the research questions, main & specific objectives, significance, scope and limitations of the study.

### **Background of the Study**

In the recent past, competition has intensified in many organizations over territory, niche or allocation of resources leading to a sustained decrease in profits in some. It is believed that competition in any organization is caused by four forces ; threat of new entrants in the industry, bargaining power of suppliers and customers, threats of substitute products and rivalry amongst the current competitors (Papulova & Papulova, 2006). Increased competition threatens the attractiveness of an industry and reduces the profitability of the players. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the environment (Hamel & Prahalad, 2005).

Cement is a global commodity, manufactured at thousands of local plants. Because of its weight, cement supply via land transportation is expensive, and generally limited to an area within 300km of any one plant site. The industry is consolidating globally, but large, international firms account for only 30% of the worldwide market. In many developed countries, market growth is slow or nil whereas in developing markets, growth rates are more rapid. China is the fastest growing market

today, because it is both global and local. The cement industry faces a unique set of issues, which attract attention from communities near the plant, at a national and an international level (Kinyua, 2007).

### **Global Perspective on Growth Strategies**

The cement industry is one of the most promising in the economy in the countries of the Customs Union. In 2012, Russia reached a record-high level of cement consumption. Analysts expect demand to grow significantly by 2020 amid the modernization of the Russian and Kazakhstan transport systems, the implementation of the federal housing programs in Russia and Kazakhstan, and the preparation for the 2014 Winter Olympics in Sochi and the 2018 FIFA World Cup. At the same time, manufacturers bear additional expenses as energy and transportation tariffs rise, coupled with high borrowing costs. (ICR – Global Cement Report 8th Edition)

In Tanzania, as far as the cement industry is concerned, the recent decision of a Kenyan firm to invest in local production facilities in Tanga and Dar es Salaam could help limit the emerging trade deficit and possibly also trigger export activities to neighboring countries that lack the required natural resources. In summary, the Tanzanian market offers substantial prospects for both domestic and international manufacturing firms. While importers today are still the key beneficiaries of these developments, the rapidly multiplying market volumes suggest that economies of scale might soon warrant domestic production for a variety of manufactured products (UN Comtrade, 2012).

### **Kenyan Perspective on Growth Strategies**

Since 1991 Kenyan Cement companies have been increasingly exposed to both domestic and international competitions. This has forced firms in the Kenyan Cement industry to restructure and

reengineer their strategic responses so as to be competitive and deliver value to stakeholders. Today, the business environment in Kenya is rapidly changing with respect to competition, products, people, process of manufacture, markets, customers and technology is embedded in all these functions. It is not enough if cement companies can keep pace with these changes but are expected to beat competitors and innovate in order to continuously maximize shareholder value (Aosa, 1992). Competitive and growth strategies like product development, market development and diversification are regarded as important engines that help companies to enter new markets, expand customer base, cut competition, consolidate and grow in size quickly, employ new technology with respect to products, people and processes (Ansoff & McDonnell, 1990).

Kenya's building and construction sector is amongst the most rapidly growing, experiencing an average growth rate of 14.2% for the period 2006 – 2011. Over the same period, Kenya's economic growth, as measured by the real Gross Domestic Product rate (GDP) averaged only 4.3% declining to 4.38% in 2011 and from 6.33% in 2006. Difficult global macro conditions (effects of high oil prices and the August 2007 commencement of the financial crisis) and Kenya's 2008 post election violence in the midst of a high inflation environment (inflation averaged 9.0%) resulted in the country's subdued economic performance during the period. While cement consumption in particular is highly correlated to a country's economic performance, cement utilisation experienced superior growth that was more than twice the rate of GDP growth during the period (CBK, 2006). Growing in tandem with the construction sector, cement consumption increased at an average rate of 14.1% for the period 2006 – 2011, with consumption reaching 3.43 million tonnes (mT) in 2011, up from 1.57mT in 2006 (CBK, 2007).

The key drivers of this growth in consumption included a rising demand for housing (which triggered an upsurge in private sector funded housing developments), the commercial construction boom fuelled by increased foreign investment, and extensive government and donor-funded spending on the country's mega infrastructure projects.

Setting and maintaining the growth race requires companies to excel in vital areas (Kapur et al., 2005). Successful competitive and growth oriented firms set the right growth direction by forming a clear point of view in the future developing the product, market portfolio without being limited to history, building a competitive model to win and pursuing reinforcing initiatives to sustain competitiveness and growth (Davidsson & Delmar, 1997). They truly understand their capabilities based on realistic assessments of their strengths and limitations and develop their operational model to support the competitiveness and growth strategy. These firms focus on their strategic change attitudes with clear visions to forming a sustainable competitive edge. Strategic change is increasingly important in the today's changing business environment (Delmer, 1998).

Contemporary firms operating in dynamic market contexts, often deal with these contingencies by implementing strategies that permit quick reconfiguration and redeployment of assets to deal with environmental changes. It is necessary for firms to adopt strategies which would enable them maintain competitive positions in the market place or else be eliminated. Boynton and Victor (1991) observed that firms need to respond to changes with stable and long-term strategies, yet flexible and responsive process. Strategies should generally avoid any fundamental changes in character of a business as well as major changes of the business interface with the customers. Due to dynamic

environmental variables, which affect the firm, new strategies are inevitable for survival and success, which constantly require different success factors (Pearce and Robinson, 1998). According to him, failure to develop successful strategies and overcome constraints preventing their execution can lead to collapse and death (Pearce and Robinson, 1988). Therefore this research proposal will focus on the competitiveness and growth strategies adopted by players in the Kenyan Cement industry, with a specific case study of East African Portland Cement Company Limited.

### **An overview of Kenyan Cement Industry**

In Kenya, cement history started in the early 1930s when in 1933, East Africa Portland Cement Company Limited (EAPCC) began as a trading company importing cement. Blue Circle Industries of United Kingdom formed the company. The plant's initial capacity was 60,000 tonnes a year, but presently it stands at 800,000 tonnes a year. EAPCC targets 900,000 tonnes towards end of year 2015 (Researcher 2014). EAPCC has a market capitalization of 6.885 billion (Nairobi Stock Exchange records, 2013). In 1951, Bamburi Cement Ltd was founded and Lafarge a company from France is the principal shareholder of Bamburi Cement Limited. At inception the annual capacity was 140,000 tonnes of cement but at present it stands at 2.1 million tonnes a year and a market capitalization of 70 billion shillings ([www.bamburicement.com](http://www.bamburicement.com)). Athi River Mining (ARM) was established in 1974 and its principal shareholder is the Paurama family. Initially it was a mineral extraction and processing company and later in 1996, the cement division began operation. The company targets a capacity production of 1.8 million tonnes a year by the end of 2013 and has a market capitalization of 250 US dollars (ARM annual report, 2013).

The cement industry is capital intensive and only a few cement companies' use state of the art facilities. Cement manufacturing is energy intensive and modern cement plants are highly automated. Cement firms operate in markets closely linked to the economic cycle with a back-forward linkage with many other sectors like energy and transport (WBCSD, 2002). The industry plays a significant role in the climate change debate and energy accounts for up to 45 per cent of cement production costs.

The industry plans to increase capacity due to current and future high demand of cement. Firms in the industry are also seeking cost reduction options for power, raw material, and logistics, with a strategic focus. More firms are targeting regional markets like Sudan, Uganda, Tanzania, Rwanda and Burundi in their growth and expansion prospects. The effort is in place towards product diversification and target value added and application specific products (WBCSD, 2002).

### **Statement of the Problem**

The business environment within which the cement producing firm East African Portland Cement Company (EAPCC) operates has been vibrant and turbulent (Kinyua, 2007). According to Kinyua (2007) several changes that have had implications on EAPCC and other players in the industry have been witnessed in the past and are expected to influence companies' strategic and business actions in the medium and long-term. These changes have seen major players lose their substantial revenues (Kazimi, 2002). In 2012, East African Portland Cement Company made a loss of Ksh 849 million, due to intense competition in the industry (EAPCC, 2012). At this time, the company had two products (PPC and OPC) unlike other competitors which had more these two products and others. Unlike EAPCC, the other cement competitors have been using current technologies in their production. In the first half year of the financial year 2011-2012

the plant experienced a major unexpected breakdown that lasted 4 weeks. In the same period the macroeconomic environment experienced serious shocks such as the depreciation of the shilling to record lows – over Shs100 to the dollar. Oil prices and interest rates climbed to record levels. This is the biggest loss that EAPCC has experienced in the last 5 years (EAPCC, 2012; Dyer & Blair estimates).

The cement industry in Kenya has seen intense competition as many firms enter the industry to get a stake of the market. The market is widespread as the firms not only serve local demand but also that of neighbouring countries such as Uganda, Tanzania, Rwanda, Burundi, Democratic Republic of Congo, and most recently South Sudan. The industry has both local and international players. With heightened competition, it was important to answer the following research question: How do growth strategies impact the competitiveness of firms in Kenyan cement industry? The study therefore sought to examine the effect of growth strategies on competitiveness of cement manufacturing firms in Kenya.

### **Research Objectives**

This research was guided by both general and specific objectives.

#### **General Objective**

The main objective of this research was to determine the effect of growth strategies on the competitiveness of companies in the Kenyan Cement industry.

#### **Specific objectives**

This research was guided by the following specific objectives.

- (i) To find out the effect of product development on the competitiveness of companies in the Kenyan Cement industry

- (ii) To ascertain the effect of Market development on the competitiveness of companies in the Kenyan Cement industry
- (iii) To establish the degree with which diversification affects the competitiveness of companies in the Kenyan Cement industry
- (iv) To determine the effect of market penetration on the competitiveness of companies in the Kenyan Cement industry

### **Research Questions**

The study utilized the following research questions:

- (i) What is the effect of product development on the competitiveness of companies in the Kenyan Cement industry?
- (ii) To what extent does market development affect the competitiveness of companies in the Kenyan Cement industry?
- (iii) What is the effect of diversification on the competitiveness of companies in the Kenyan Cement industry?
- (iv) What is the effect of market penetration on the competitiveness of companies in the Kenyan Cement industry?

### **Significance of the study.**

All the players in cement industry, have to continuously grow if they want to maintain competitive advantage, otherwise competitors will grow more to gain an edge over them. Continuous growth ensures firms survive in the competitive environment. Thus the finding of this project formed a strong basis of strategic change and growth fundamentally essential to attain core competency and sustainable competitiveness.

The empirical findings of the study will be of importance to various cement industry parties, the stakeholders of various member companies and their management teams. Such groups would be interested in knowing the prospects of future wealth creation and sustainable competitiveness

instigated by growth strategies. The findings of this study will highlight pertinent issues regarding the industry which could help the government in policy formulation.

The other beneficiary categories include the investors and other market players who will be interested in knowing the industry growth pace that would guarantee a return on their investment, now and in the future. Potential investors would also be better informed about the challenges faced by the firms already operating and hence prepare accordingly for investment restructuring.

The findings of the study would also be beneficial to scholars and social scientists in terms of contributing immensely to the existing literature on growth strategies and stimulating interest in further studies on the subject. The research is expected to be a useful source of reference for researchers and scholars who might be interested in carrying out future research based on the findings of the current study. It will also help fill the knowledge gap regarding the area of study.

#### **Scope of the Study**

This study was based on the Cement Manufacturing Industry in Kenya, with a distinct case study of East African Portland Cement Company (EAPCC). The study focused on the growth strategies in the cement manufacturing firms and was conducted under the four perspectives of the Ansoff's Matrix. Key variables in this research were product development, market development, diversification and market penetration.

#### **Limitation of the study**

The study was faced with various challenges which the researcher endeavours to overcome. Obtaining full cooperation and appropriate responses from respondents posed its own difficulties. This is because most respondents felt that giving information may lead to victimization. Some heads

of the targeted offices were suspicious of the researchers' motives. The study overcame the limitation by having a letter of introduction from the university to assure the respondents that the information provided would be used for academic purpose and would thereby be treated with confidentiality.

## **LITERATURE REVIEW**

### **Introduction**

This chapter seeks to present key features of theoretical and empirical literature on the past and present subjects on business growth strategies and competitive advantage. The chapter also highlights research gaps and a conceptual framework.

### **Theoretical Review**

A Theory is a set of statements or principles devised to explain a group of facts or phenomena especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena (Popper, 1963). Theories are analytical tools for understanding, explaining, and making predictions about a given subject matter (Hawking, 1996). A formal theory is syntactic in nature and is only meaningful when given a semantic component by applying it to some content (i.e. facts and relationships of the actual historical world as it is unfolding (Zima, 2007). This study will be based on human capital theory, Schumpeterian theory, Psychological theory and Resource based theory which is discussed below.

### **Schumpeterian Theory on Innovations**

Schumpeter's (1934) theory of innovative profits emphasized the role of entrepreneurship (his term was entrepreneurial profits) and the seeking out of opportunities for novel value and generating activities which would expand (and transform) the circular flow of income through risk taking, pro activity by the enterprise leadership and innovation which aims at fostering identification of opportunities through intellectual capital of

entrepreneur to maximize the potential profit and growth.

Schumpeterian growth theory goes beyond economist theory by distinguishing explicitly between physical and intellectual capital, and between saving, which makes physical capital grow, and innovation, which makes intellectual capital grow. It supposes that technological progress comes from innovations carried out by firms motivated by the pursuit of profit, and that it involves what Schumpeter called "creative destruction". That is, each innovation is aimed at creating some new process or product that gives its creator a competitive advantage over its business rivals; it does so by rendering obsolete some previous innovation; and it is in turn destined to be rendered obsolete by future innovations (Schumpeter, 1934).

Endogenous growth theory challenges this neoclassical view by proposing channels through which the rate of technological progress, and hence the long-run rate of economic growth, can be influenced by economic factors. It starts from the observation that technological progress takes place through innovations, in the form of new products, processes and markets, many of which are the result of economic activities. For example, because firms learn from experience how to produce more efficiently, a higher pace of economic activity can raise the pace of process innovation by giving firms more production experience. Also, because many innovations result from R&D expenditures undertaken by profit-seeking firms, economic policies with respect to trade, competition, education, taxes and intellectual property can influence the rate of innovation by affecting the private costs and benefits of doing R&D (Dinopoulos & Thompson, 1998).

Schumpeter, as cited by Swedberg (2000), pointed out economic behavior is somewhat automatic in

nature and more likely to be standardized, while entrepreneurship consists of doing new things in a new manner, innovation being an essential value. As economics focused on the external influences over organizations, he believed that change could occur from the inside, and then go through a form of business cycle to really generate economic change. He set up a new production function where the entrepreneur is seen as making new combinations of already existing materials and forces, in terms of innovation; such as the introduction of a new good, introduction of a new method of production, opening of a new market, conquest of a new source of production input, and a new organization of an industry (Casson, 2002). For Schumpeter, the entrepreneur is motivated by the desire for power and independence, the will to succeed, and the satisfaction of getting things done (Swedberg, 2000). He conceptualized 'creative destruction' as a process of transformation that accompanies innovation where there is an incessant destruction of old ways of doing things substituted by creative new ways, which lead to constant innovation (Aghion & Howitt, 1992).

The entrepreneur's crucial significance to the dynamics of the capitalist system flows from the fact that it is the entrepreneur's innovations that disrupt the economy and move it forward from one equilibrium to the other. Rather than adapting to external pressures, the entrepreneur destroys the static equilibrium from within the system by inventing new products, processes or behaviors that contrast the routine systems and activities (Andersen, 2004; McDaniel, 2005). The Schumpeterian Theory emphasizes on intellectual capital and innovations hence it guides the study on product development and diversification variables.

#### **Human Capital Theory**

Human Capital theory was proposed by Schultz (1961) and developed extensively by Becker (1964).



Schultz (1961) in an article entitled “Investment in Human Capital” introduces his theory of Human Capital. Schultz argues that both knowledge and skill are a form of capital, and that this capital is a product of deliberate enterprise growth. The concept of human capital implies an investment in people through education and training. Schultz compares the acquisition of knowledge and skills to acquiring the means of production. The difference in earnings between people relates to the differences in access to education and health. Schultz argues that investment in education and training leads to an increase in human productivity, which in turn leads to a positive rate of return and hence of growth of businesses.

This theory emphasizes the value addition that people contribute to an organization. It regards people as assets and stresses that investments by organizations in people will generate worthwhile returns. The theory is associated with the resource based view of strategy developed by Barney 1991, the theory proposes that sustainable competitive advantage is attained when the firm as a human resource pool that cannot be imitated or substituted by its rival. For the employer investments in training and developing people is a means of attracting and retaining people. These returns are expected to be improvements in performance, productivity, flexibility and the capacity to innovate that should results from enlarging the skills base and increasing levels of knowledge and competence. Schuler (2000) suggests that the general message in persuasive skills, knowledge and competences are key factors in determining whether organizations and firms will prosper. According to Hessels and Terjesen (2008), entrepreneurial human capital refers to an individual’s knowledge, skills and experiences related to entrepreneurial activity. Entrepreneurial human capital is important to entrepreneurial development.

Previous empirical research have emphasized that human capital is one of the key factor in explaining enterprise growth. Brüderl et al. (1992) argues that greater entrepreneurial human capital enhances the productivity of the founder, which results in higher profits and, therefore, lower probability of early exit. Moreover highly educated entrepreneurs may also leverage their knowledge and the social contacts generated through the education system to acquire resources required to create their venture (Shane, 2003). In addition to education, specific human capital attributes of entrepreneurs, such as capabilities that they can directly apply to the job in the firm, may be of special relevance in explaining enterprise growth (Colombo & Grilli, 2005).

The specific human capital can be attained through precise trainings and previous experience. More focused business training can provide entrepreneur with a specific knowledge, compared to a formal education. This kind of specific human capital also includes knowledge of how to manage a firm, that is, entrepreneur-specific human capital (Collombo & Grilli, 2005). In particular, entrepreneurs with great industry-specific and entrepreneur-specific human capital are in an ideal position to seize neglected business opportunities and to take effective strategic decisions that are crucial for the success of the new firm (Collombo & Grilli, 2005). The human capital theory emphasizes on an organization investment on human resource pool that cannot be imitated or substituted by its rival. Human capital adds value to product and market development hence it informs product development, market development and market penetration variables in the study.

### **Resource Based Theory**

Resource-based view has become one of the most influential and cited theories in the history of management theorizing. It aspires to explain the

internal sources of a firm's sustained competitive advantage (Kraaijenbrink, Spender, & Groen, 2010). It was Penrose who established the foundations of the resourced-based view as a theory (Roos & Roos, 1997). Penrose first provides a logical explanation to the growth rate of the firm by clarifying the causal relationships among firm resources, production capability and performance. Her concern is mainly on efficient and innovative use of resources. She claimed that bundles of productive resources controlled by firms could vary significantly by firm, that firms in this sense are fundamentally diverse even if they are in the same industry (Barney & Clark, 2007). Wernerfelt (1984) took on a resource perspective to analyze past history of products and ultimately organizational performance and believed that "resources and products are two sides of the same coin" and firms diversify based on available resources and continue to accumulate through acquisition behaviors.

The knowledge based literature of the firm fosters and develops the resource based theory in that it considers knowledge to be the most complex of an organization's resources (Alavi & Leidner, 2001). According to resource-based theory, the intellectual capital (IC) is a main source to improve enterprise growth. Therefore, intellectual capital has been studied by many past researchers who investigate the influence of intellectual capital on business performance. However, most past researchers focused on the impact of individual intellectual capital on performance while neglecting the effects of specific elements of intellectual capital.

The currently dominant view of business strategy – resource-based theory or resource based view (RBV) of firms – is based on the concept of economic rent and the view of the company as a collection of capabilities. This view of strategy has a coherence and integrative role that places it well ahead of other mechanisms of strategic decision

making. Ganotakis & Love (2010) used the Resource Based Theory (RBT) to explain the importance of human capital to entrepreneurship. According to RBT, human capital is considered to be a source of competitive advantage for entrepreneurial firms. Ownership of firm-specific assets enables a company to develop a competitive advantage. This leads to idiosyncratic endowments of proprietary resources (Barney, 1991; Peppard & Rylander, 2001). According to RBT, sustainable competitive advantage results from resources that are unique, not substitutable, tacit in nature, and synergistic (Barney, 1991). Therefore, managers need to be able to identify the key resources and drivers of performance and value in their organizations.

The RBT also states that a company's competitive advantage is derived from the company's ability to assemble and exploit an appropriate combination of resources. Such resources can be tangible or intangible, and represent the inputs into a firm's production process; such as capital, equipment, the skills of individual employees, patents, financing, and talented managers. As a company's effectiveness and capabilities increase, the set of available resources tends to become larger. Through continued use, these "capabilities", defined as the capacity for a set of resources to interactively perform a stretch task or an activity, become stronger and more difficult for competitors to understand and imitate (R&D expenditures) and can be used to augment future production possibilities. The theory emphasizes how internal resources of a firm may influence aspects such as production capability and efficiency in order to achieve competitive advantage. This therefore informs the diversification variable.

### **Ansoff Matrix Growth strategies**

The Ansoff Matrix, designed by Igor Ansoff, classifies and explains different growth strategies for a company. This matrix is used by companies

which have a growth target or a strategy of specialization. This tool, crossing products and markets of a company, facilitates decision making (Ansoff, 1957).

In an ever-changing business environment it is vital that the management of any organisation can successfully identify directions for strategic development. This requires that management has a thorough understanding of the environment in which its organisation exists (Kotler and Armstrong, 1996). In considering the options available for the strategic development of its business, management could make use of Ansoff's product-market matrix. The matrix helps management understand and assess marketing or business development strategy (Ansoff, 1958). Any business, or part of a business can choose which strategy to employ, or which mix of strategic options to use. This is a relatively simple way of looking at strategic development options.

Ansoff describes four different strategies for business growth, four product-market strategies; market penetration, market development, product development, and diversification. Although there are a variety of very different models to describe real-life situations (Ansoff, 1958), this growth model is used as a basis for this research. Similarly, as mentioned, there are several lifecycle extension strategies that cement companies can use which can be placed in the four quadrants of this model. While there is a lot of research on growth strategies, this basic model of Ansoff, the product-market growth matrix (Hussey, 1990), is still very useful, particularly in this research. The Ansoff matrix offers four strategies to achieve the objectives, which are designed on market penetration, market extension, product development and diversification.

**Table 2.1 – Ansoff's Product-Market growth matrix**

		Products	
		Existing	New
Existing		Market penetration	New Products
New		Market Extension	Diversification

## Market

### Market Penetration

Market penetration is a product-market growth strategy in which the same product is used to sell in the same market. In other words, the company is not departing from its original product-market strategy, it is an incremental product (Ansoff, 1958).

An example of such a strategy could be that there is a marketing campaign which stimulates current customers to buy the current product, expanding its customer base. Or the strategy involves finding new customers which are in the same market but did not use the product yet. Yet, another example is a small change in the product which does not really change the product but gives it more taste, or is a more

effective product which generates more consumers (Kotler and Armstrong, 1996).

In pursuing a strategy based on market penetration, management is attempting to sell greater volumes of existing products in existing markets. This is a low-risky strategy which is most unlikely to lead to high rates of growth. This may involve increasing revenue by, for example, promoting the product or repositioning the brand. However, the product is not altered in any way and no attempt is made to find any new customers. The emphasis is solely upon 'selling more of the same products to the same customers' (Beamish et al., 1999).

### **Market Development**

Market development is a product-market growth strategy in which the same product is used to serve a different market. Often the product undertakes a small alteration in order to serve the new market (Ansoff, 1958; Porter, 1985). An example of such a strategy is that a product which is mainly recognised as a product for older people is now repositioned as a product for younger people as well. Such a strategy is used to gain more market share by broadening the consumer base. In pursuing a strategy based on market development, management is attempting to sell the existing product range in a new market. This means that the product remains the same but it is marketed to a new audience. Exporting the product, or marketing it in a new region, is an example of a market development strategy (Kotler and Armstrong, 1996; Kumar, 1994).

### **Product Development**

Product development is a product-market growth strategy in which the existing market is served; however, a newer, significantly improved product is launched (Geringer et al., 2000). This involves next generation products. An example of such a strategy is that a product is improved for the same market in order to sell more. Regularly, the old product is not

sold anymore, only the new and improved product is sold to the customers. However it is possible that the old product is still sold next to the new and improved product. People who do not want to switch to the new product can still buy the older version. This strategy is used to keep customers satisfied and to stay ahead of the competition (Porter, 1990; Kotler and Armstrong, 1996).

In pursuing a strategy based on product development, management is attempting to sell a new product to existing customers. Efforts are focused on the development and innovation of new product offerings with which to replace existing ones. New products are then marketed to existing customers. This often occurs within the automobile market where existing models are updated or replaced and then marketed to existing customers (Miller, 1986; Porter, 1985; Porter, 1990).

### **Diversification**

Diversification is a product-market growth strategy in which a new product is developed to serve a completely new market (Ansoff, 1958; Hitt et al., 2000). An example is that an established brand develops a new product that serves a different market than what it was serving before. These radical innovations require a lot of research and development. In pursuing a strategy based on diversification, management is attempting to sell completely new products to new customers. There are two types of diversification – related and unrelated diversification (Porter, 1980).

Related diversification means that management remains in a market or industry with which it is familiar, for example a chocolate manufacturer diversifying into ice cream (the food industry). Unrelated diversification occurs where the investing company has neither previous industry nor market experience – where the chocolate manufacturer invests in the clothing industry, for example. All four strategies are paths which companies can take

toward future growth (Ansoff, 1958). These four strategies can take different forms in different industries, and this is the reason that the possible brand extension strategies for the cement industry are evaluated next in order to advance the existing framework

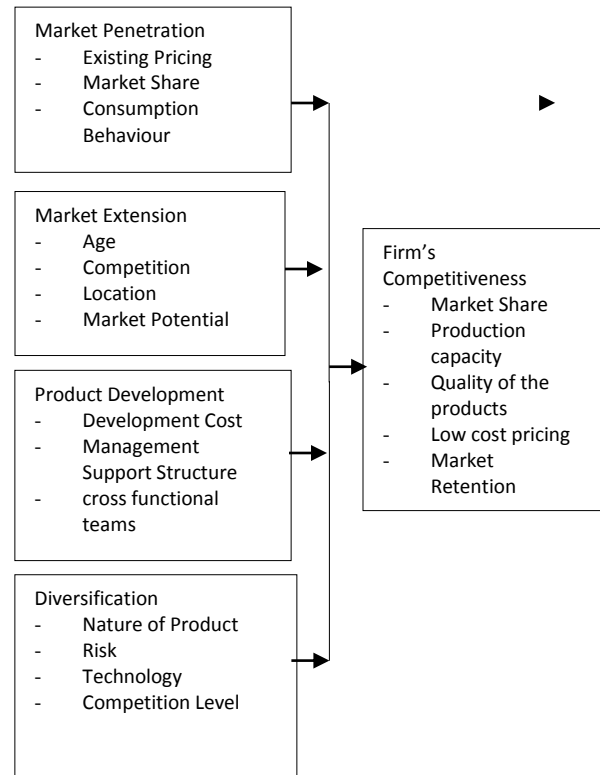
The model, like many other models, has little predictive capability. However, in using a model which focuses on alternative strategic options, management will be able to assess the level of risk attached to each potential strategic option (Porter, 1990). For example, the adoption of a strategy of market penetration entails the lowest risk, whereas a strategy based upon diversification has the highest risk especially when the entry strategy is not based upon the core competences of the organization.

**Conceptual framework**

Mugenda and Mugenda (2003) define conceptual framework as a concise description of the phenomenon under study accompanied by a graphical or visual depiction of the major variables of the study. According to Young (2009), a conceptual framework is a diagrammatic representation that shows the relationship between dependent variable and independent variables.

In order to ensure that the main aims of this study were achieved, I was guided by the following conceptual framework. The conceptual framework uses key prepositions from Ansoff's (1958) product-market matrix. The main variables that have been developed from the model include, but limited to: Market penetration, market extension, product development and diversification. These growth strategies were aligned towards measuring their effect on the competitiveness of a firm. A brief summary has been presented in fig 2-1 below

**Figure 2.1: Conceptual framework**



**Empirical Review of Literature**

Empirical studies on entrepreneurship show that new ventures have successfully faced the challenge of globalization in different industry structures, used a variety of competitive strategies, and had differing levels of resources to get into their target markets (Bloodgood et al., 1996; McDougall and Oviatt, 1996; Preece et al., 1999). Target market, addresses questions about where most of customers are and how many value chain activities are coordinated across different countries (Preece et al., 1999). The target market can be defined as the geographical scope of market that new ventures operate in and enter into. The target market can be simply divided into two markets, i.e., local (or domestic) market and global (or international) market. With accelerated globalization and rapid diffusion of new products and services in high-tech industries, new ventures can target the global market from the inception (Bloodgood et al., 1996; McDougall and Oviatt, 1996).

Several empirical analyses have also been carried out on the dimension of product-market development and growth patterns. Product-market maturity is related to the stage of product life cycle (Eisenhardt and Schoonhoven, 1990; Robinson, 1999; Sandberg and Hofer, 1987). Researchers conceptualized the development of the product-market as a series of stages—such as the introduction, growth, maturity, and decline stages (Anderson and Zeithaml, 1984; Hambrick et al., 1982)—and explained the evolution of the market (Rogers, 1962). These stages of the product-market life cycle are associated with changes in the competitive environment around the sources of competitive advantage (Anderson and Zeithaml, 1984). New ventures with superior technological capabilities are apt to enter in the early stages that provide business opportunity to capture the new demand in a fast-growing market. Many empirical studies have consistently supported the view that new ventures entering into growing industries have higher performance than others that are in the maturity or decline stage (Covin and Slevein, 1990; Eisenhardt and Schoonhoven, 1990; Robinson, 1999; Sandberg and Hofer, 1987; Tsai et al., 1991).

Pearce and Robinson (2005) suggest that the growth rate of the general market and the firm's position within that market determine the grand strategy chosen. Having an understanding of the rationale behind the strategy option chosen is vital if employees are to deploy the strategy effectively. Such an understanding also provides an indication of the longer term vision for the company.

Fox-Wolfgramm, Boal and Hunt (1998) contend that, "second-order change, a shift from one strategic orientation and growth to another, is typical even in times of environmental and economic upheaval." They note that organizations typically converge around a prevailing model: "strategic orientation, growth and inertia tend to

bind the organizational expansion to that which is consistent with the model representing first-order change and growth."

In his article, Miller (1987) described the basic strategic growth dimensions as product/ service innovation (a type of differentiation), marketing differentiation (a second type of differentiation), breadth (similar to focus), and conservative cost control (an amalgam of cost leadership asset parsimony). The findings of his research showed that there is a clear competitive advantage gained when organization formulate effective growth patterns. However the research failed to show any possible effect of these growth strategies on the competitive advantage.

The findings of Nimicki (1989) provided some insights into the business growth strategies for effective sales performance. The top three dimensions of business strategies used by Nimiki (1989) in his study that gave a good impression on the competitive strategy for sustainable sales performance were innovative differentiation, product differentiation, and marketing differentiation. In terms of total percentage of market share, Nimiki (1989) noted that most of the companies showed a positive indicator to excel in their business when they employed these business strategies. However a key weakness in his research was the limited scope of business growth variables.

Scheleider and Meyer (1991) in their research stated that the assessment of environmental threats and opportunities and organizational strength and weakness as well as overall growth patterns are core to developing strategic positioning and competitive advantage. Diagnosis of these factors helps the organization in determining changes to be made to its strategies and internal capabilities so as to become more competitive. However their research failed to show if there

existed any sound effect of growth strategies (patterns) on the firm's competitiveness.

According to a study by Ernest (1999) the viability of the location growth strategies plays a major role in the economics of cement manufacturing. It is determined by factors such as proximity to raw materials (limestone, coal), distance to market areas as well as availability of continuous power supply. Proximity to limestone deposits contributes considerably to pushing down costs in transportation of heavy limestone. If units are located close enough to limestone resources, trucks can be used to move limestone over the short distance instead of relying on scarce railway capacity. The study held that growth strategies in cement production should substitute wet processes by the significantly less energy using dry process over time.

Carman and Langeard (1980) conducted a study which described four usual determinants of profitability that provide guides for strategic planning: Life cycle, experience, and market share. The study suggested the following: First, the service firm should not overuse its delivery system and its image by attempting to serve the needs of too many socio-demographic segments. Second, service development and concentric diversification are not sequential choices; the latter is not as distant from the former as may be commonly perceived. Third, expansion to out-of-country markets represents a risk discontinuity; it should be approached by service firms with considerable flexibility and willingness to interact with different cultures.

### **Summary**

This chapter covered the theoretical review, empirical literature, the conceptual framework and the research gaps identified. On the theoretical review, the study discussed the Schumpeterian Theory on Innovations, Human Capital Theory and

Resource Based Theory. The empirical literature was discussed based on a number of identified growth strategies such as market penetration, market development, diversification, product development; and how it affects firm competitiveness. The conceptual framework presented diagrammatic representation that shows the relationship between dependent variable and independent variables. The chapter ends with a research gap section which highlights the knowledge gaps that have not been filled by the previous studies and that can be filled by this study.

### **Research gaps**

A primary concern of strategic management and industrial organizational economics is the relationships between strategy, competitive performance and growth (Geringer, Tallman, & Olsen, 2000; Hitt et al., 1997; Montgomery, 1985; Porter, 1980, 1990). Such studies have emphasized the relative importance of different strategic factors to stimulate organizational growth (e.g., diversification, R & D intensity, firm size and capital intensity, etc.) in determining the firm's competitive performance. Although there are some variations in its results with respect to competitive performance and growth measures being employed, the most distinctive strategy will have a detrimental impact on the firm competitive performance in a significant way. Despite the volume of research focusing on the business growth strategy, organizational competitive performance relationships, the influence that business growth strategy has on the organizational competitiveness of Cement manufacturing firms remains largely unexplored; there is still insufficient knowledge about the business growth strategy of Cement Producers.

It is important to identify which of the organization's strategic factors affect the growth patterns and further how those growth patterns contribute to its economic and competitive

performance of the organization. Most of the past studies on growth strategy focused on the direct and partial linkage between the organizations strategic growth factors and competitiveness (Beamish, Karavis, Lane, & Ivey, 1999; Kumar, 1994; Moen, 1999; Li, 1999) and/or linkage between growth strategies and competitive performance separately but the effects (Zou & Stan, 1998). Surprisingly, this related issue of concerned has received minimal attention in the Cement Manufacturing literature in Kenya. This study therefore sought to explore the effect of growth strategies on the competitiveness of companies in the Kenyan cement industry. To achieve its aims, the research employed a case study of East African Portland Cement Company Limited. The main research drivers/variables was derived from Ansoff's (1958) Product-Market Matrix.

## **RESEARCH METHODOLOGY**

### **Introduction**

The chapter gives a detailed outline of how the study was carried out. It describes the research design, the target population, the sample and sampling procedure, data collection, research instruments, and analysis procedures that was employed in the study.

### **Research Design**

The study adopted the descriptive survey research design. Descriptive survey design was used in preliminary and exploratory studies to allow the researcher gather information, summarized, present and interpret it for purposes of clarification (Orodho, 2002). Kothari (2003) also recommends descriptive research design as it allows the researcher to describe, record, analyse and report conditions that exist or existed. This design was ideal for this study as the researcher assessed the effect of growth strategies on the competitiveness of firms in the Kenyan Cement industry with a case study of East African Portland Cement Company

Limited. In this study, both qualitative and quantitative research approaches were used. Qualitative research seeks to describe and analyse the culture and behaviour of humans and their groups from the point of view of those being studied (Kombo & Tromp, 2006). It is flexible, interactive and uses the natural setting. Qualitative research includes the use of questionnaires, in-depth interviews, case studies and focus groups. For this study questionnaires were used as an instrument of data collection.

Quantitative research on the other hand relies on the principle of verifiability. That means a confirmation, proof, corroboration or substantiation. The researcher's values, interpretation and feelings are not considered and objectivity is reinforced. In quantitative research the researcher tries as much as possible to be detached from the subject of study or respondent (Kombo & Tromp, 2006). This design allowed the researcher to generate both numerical and descriptive data that was used in measuring relationships between the variables. Descriptive design involves measurement, classification, analysis, comparison and interpretation of data (Kombo & Tromp, 2006). Statistical information about the strategies of competitive advantage was generated.

### **Target Population**

A population is a group of objects, individuals or items from which samples are taken for measurement (Kombo & Tromp, 2006). The total population in EAPCC was 1472. The target population consisted of top management heads, managers & supervisors and junior employees at EAPCC.

### **Sampling Size and Sampling Technique**

According to Orodho and Kombo (2002), sampling is the process of selecting a number of individuals or objects from a population such that the selected



group contains elements representative of the characteristics found in the entire population. Sampling is the process of obtaining information about the entire population by examining only part of it (Kothari, 1985). For this study, the research was on East African Portland Cement Company Limited (EAPCC).

To get appropriate information on the Kenyan Cement industry and specifically, that of East African Portland Cement Company Limited, senior and middle level management of the Company were purposefully picked as respondents. Those who were best placed to understand the EAPCC

performance matters. Purposive sampling is appropriate when the information required can only be obtained from a specific source (Mugenda and Mugenda, 1999). However, random sampling was also used to obtain respondents with a particular characteristic e.g. supervisors and employees of various departments within the company. The subjects were selected in terms of their ease of involvement and availability. This method was also preferred because it was fast, inexpensive and uses readily available respondents. The sample size of this research was 150 participants. The table below presents the total population of this research.

**Table 3.1: Sample Size**

Category	Population	Sample Size
Top Management Heads	7	2
Managers & Supervisors	265	74
Junior employees	1200	74
<b>Total</b>	<b>1472</b>	<b>150</b>

**Source: EAPCC, 2014**

### **Data Collection and Instrumentation**

#### **Data Collection Method**

Data was collected via personally-administered survey questionnaires. The advantage of this method is that both the cost and the time required are low (Cavana et al., 2001). The selected sample of this study were systematically invited to volunteer to do the survey questionnaires.

#### **Data Collection Procedure**

Both primary and secondary data was collected for this study. The primary data was collected through questionnaires while secondary data was collected from records at the company offices. The questionnaires with adequate instructions and

drafted in a clear language were hand delivered to the respondents by the researcher and /or assistants. The date for collecting the filled-in questionnaire was agreed upon the point of delivery of the questionnaires and follow up made by phone during the process. The researcher made observations across the Kenyan Cement industry while visiting EAPCC premises. This enriched the study and helped in filling some information gaps. The researcher also examined available data from the company documentations. These documents included competitive records available in the EAPCC departments and other offices in selected sections of the company. Documents/record analysis assisted the researcher to obtain pertinent information that could not otherwise be obtained

through observation or questionnaires. A brief invitation and introduction to this research was provided to participants before they start filling out the questionnaires. If they accept the invitation, questionnaires were handed out to them. Otherwise, they did not receive any questionnaires.

A survey is a powerful and effective tool that can be used to collect data about human attitudes, behaviors, and characteristics. In this study a survey with questionnaires was implemented to explore effect of growth strategies on the competitiveness of firms in Kenyan Cement industry with a case study of East African Portland Cement Company Limited, with special focus on formulated growth strategies. In order to facilitate participants' understanding of this research, a brief introduction of the research purpose and a definition of concepts were provided at the beginning of the questionnaire. According to Sudman and Bradburn (1982), it is better to keep participants' minds on the purpose of the survey at the beginning. There was no technical jargon or difficult words in the questions, and closed ended questions were used throughout the whole questionnaire. This was quite helpful as respondents made a quick decision when answering and it provided greater uniformity, thereby making data processing easier.

The questionnaire items were developed, rephrased and selected to suit the context of the study and to represent the variables in the research. Pre-testing of the items and their measurement was conducted by going through the results of the sample and by asking the respondents in the selected area. All developed items were relevantly matched to the strategies employed by East African Portland Cement Company Limited to attain its competitive advantage in the Kenyan Cement industry.

#### **Pilot Test**

A pilot study was done where the questionnaires was administered to 12 respondents before the

actual data collection. The pilot group was selected from the Athi River Mining Cement Limited which has similar attributes to EAPCC. This helped in making adjustments to ensure that data collection tools actually measured what was intended. The purpose of the pilot test was to ensure the validity and reliability of the data collection instrument to ensure that it is relevant in achieving the objectives of the study.

#### **Validity of the Instrument**

Validity involve how accurately the data obtained represents the variables of the study while reliability refers to the degree to which a research instrument yields consistent results or data after repeated trials to establish its reliability (Saunders *et.al.*, 2003). The term validity indicates the degree to which an instrument measures the construct under investigation. For a data collection instrument to be considered valid, the content selected and included must be relevant to the need or gap established.

Validity of the questionnaire was established by the researcher and supervisor reviewing the items. Before the actual study, the instruments were discussed with supervisors. The feedback from the supervisor helped in modifying the instruments. This ensured that the questionnaire collected reliable information and also improved the response rate.

#### **Reliability of the Instrument**

Mugenda and Mugenda (2003) defined reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Reliability test measures the internal consistency of the questionnaire. An instrument is reliable when it can measure a variable accurately and obtain the same results over a period of time. A pre-test helped the study identify the most likely source of errors and hence

modify the questionnaire before the actual study. Reliability test also helped establish the internal consistency of the instrument.

Reliability was calculated with the help of Statistical Package for Social Sciences (SPSS). Cronbach's alpha test was used whereby a co-efficient of above 0.7 implied that the instruments are sufficiently reliable for the measurement (Nunnally, 1978). The objectives of pre-testing allowed for modification of various questions in order to rephrase, clarify and or clear up any shortcomings in the questionnaires before administering them to the actual respondents. It helped the researcher to correct inconsistencies arising from the instruments, which ensured that they measure what was intended.

#### **Data Analysis Techniques**

After collecting the data, the researcher edited the raw data to free it from inconsistencies and incompleteness. This involved a scrutiny of the completed instruments in order to detect and reduce as much as possible errors, incompleteness, misclassifications and gaps in the information obtained from the respondents. Collected data was coded to establish how possible answers would be treated by assigning numerical values to them. The data was captured and stored in soft and hard copy formats. Data was tabulated into sub-samples for common characteristics with responses being coded to facilitate basic statistical analysis. The simplest way to present data is in frequency or percentage tables, which summarizes data about a single variable, (Orodho, 2003). Descriptive statistics was used to analyze the data. The inferential statistics entailed a linear regression analysis and Pearson correlation analysis which sought to establish the relationship between depended and independent variables. Statistical Package for Social Sciences (SPSS version 21) was employed to aid in the analysis of data. The results were presented using

frequency tables, percentage charts, and bar graphs.

The model took the following form:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$$

Whereby Y = Firm competitiveness,  $X_1$  = Product Development,  $X_2$  = Market Development,  $X_3$  = Diversification,  $X_4$  = Market Penetration

## **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

### **Introduction**

This chapter presents the results and findings as analyzed from the data collected. The main objective of this research was to determine the effect of growth strategies on the competitiveness of companies in the Kenyan Cement industry. The responses were analyzed using descriptive statistics and results were presented in tables, pie charts and bar graphs.

The study targeted 150 respondents who included the Top Management Heads, Managers and supervisors and junior employees in the targeted company. A total of 112 questionnaires were completely and successfully filled in time for data analysis giving a response rate 75%. According to Mugenda and Mugenda (2003) a 50 percent response rate is adequate, 60 percent good and above 70 percent rated very well. The response rate was therefore considered appropriate to derive the inferences regarding the objectives of the research.

### **General Information**

The researcher found it important to establish the general information of the respondents since it forms the basis under which the study can rightfully access the relevant information. The general information presented respondents issues such position held by the respondents, current department, years worked in the organization and major competitors of the organization.

### Position Held in Organization

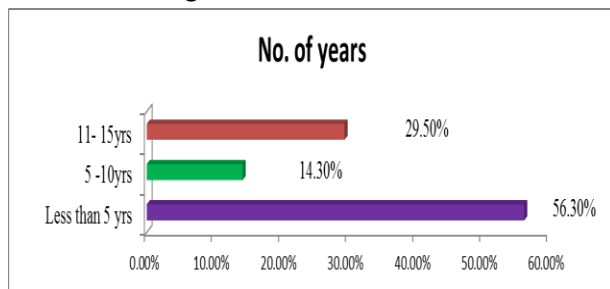
This section sought to determine the position held in the organization. The respondents indicated the position held as follows; audit assistant, auditors, communication assistant, public relations officers, risk officers, sales supervisors, strategy development officer, supervisors, head of sales, strategy and communications manager and transport coordinators.

### Current Department

Regarding the current department occupied by the respondents, they indicated as follows; internal audit and risk, quality assurance, sales and marketing, strategy & support, and Production Operations.

### Years Worked in the Organization

The section sought to determine the number of years worked in the organization. The responses are shown in the figure below.



**Table 4.1: Number of Products/ Services**

No. of Products	Frequency	Percentage
Less than 5	79	70.5
5-10	33	29.5
<b>Total</b>	<b>112</b>	<b>100.0</b>

The study findings shows that majority of the respondents (70.5%) indicated that they had less than 5 products. Only 29.5% indicated that they had 5-10 products or services. None of the respondents indicated that their organization had more than 10

**Figure 4.1: Years Worked in the Organization**

The results show that 56.3% indicated that they had worked in the organization for less than 5 years, 29.5% indicated 11-15 years and only 14.3% indicated 5-10 years. The results show that though majority of the respondents had worked in the organization for a duration of less than 5 years, a significant number had worked in the organization for a long duration which improves the reliability of the information given.

### Major Competitors

The study sought to determine the major competitors of the involved organizations. The respondents indicated them as follows; Bamburi cement was the leading company that posed high competition followed by ARM Cement Company. Other companies that were indicated include; National cement, Mombasa cement. Savannah cement, Rhino cement (ARM), Nyumba cement (Mombasa) and Simba cement (National).

### Product Development

#### Products or Services offered by EAPCC

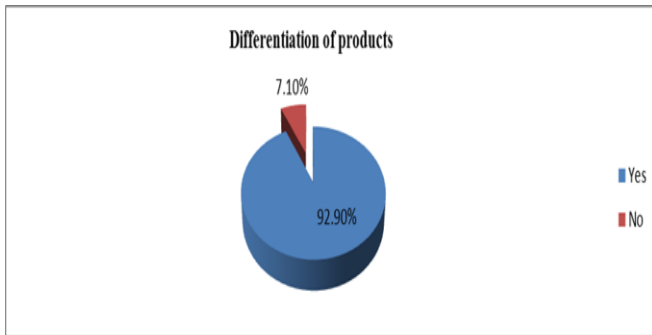
In this section, the study sought to determine the number of products or services EAPCC has. The results were as shown in the table below.

products or services. This is an indication that product development was not yet fully attained, that is, there was more room for improvement in EAPCC. According to Geringer et al. (2000) product development is a product-market growth strategy

in which the existing market is served; this is a strategy where the product is improved for the same market in order to sell more. This strategy is used to keep customers satisfied and to stay ahead of the competition (Kotler & Armstrong, 1996).

**Differentiation of Product Features**

The study sought to determine whether there was differentiation of product features. The results are illustrated in the figure below.



**Figure 4.2: Differentiation of Product Features**

The respondents as shown by 92.9% indicated that there was differentiation of product features. However, 7.1% of the respondents indicated that there was no differentiation of product features. This is an indication that EAPCC is in a position to retain its customers through the feature of product differentiation as it leads to competitive advantage. This concurs with Miller (1987) who described the basic strategic growth dimensions as product/

**Table 4.2: Product Development Aspects on Competitiveness**

Product Development	Mean	Std. Deviation
Introduction of new products in the market	4.56	0.20
Introduction of new technology in product development	3.06	0.27
Increased use of research in product development	4.42	0.94
Differentiation of products	4.69	0.85
Use of quality enhancements	4.40	0.89

The study findings show that the respondents indicated that differentiation of products enhanced competition to a very great extent. They also indicated that introduction of new products in the

service innovation (a type of differentiation) and marketing differentiation (a second type of differentiation). There is a clear competitive advantage gained when organization formulate such strategies.

**Products Differentiated their Features**

In this section, the study sought to determine the products differentiated and how they were differentiated. The respondents indicated that Blue triangle cement was differentiated by making it brighter than the rest; cement packaging with a triangle at the centre of the bag, OPC and PPC difference in strength levels, OPC and PPC through bagging, OPC cement for building roads and bridges and PPC cement for building houses.

**Product Development to Target Current Customers**

The respondents were asked to indicate the products developed to target current customers. Some of the products indicated were; precast, concrete blocks, cabro, ordinary pozzolanic cement, Portland pozzolanic cement and paving and interlocking blocks.

**Product Development Aspects on Competitiveness**

The study sought to determine the extent to which various statements relating to product development enhanced on competitiveness. The results were as shown in the table below.

market enhanced competition to a very great extent as shown by a mean of 4.56. These findings are in line with those of Nimiki (1989) who revealed that innovative differentiation, product differentiation,

and marketing differentiation gave a good impression on the competitive strategy for sustainable sales performance. Kotler and Armstrong (1996) also revealed that product development strategy kept customers satisfied and to stay ahead of the competition.

In addition, the respondents indicated that increased use of research in product development enhance competition as shown by a mean of 4.42 enhanced competition to a great extent. The respondents also indicated that use of quality enhancements as shown by a mean of 4.40 enhanced competitiveness to a great extent. The respondent however agreed to a moderate extent on whether introduction of new technology in product development enhanced firm competitiveness as indicated by a mean of 3.06.

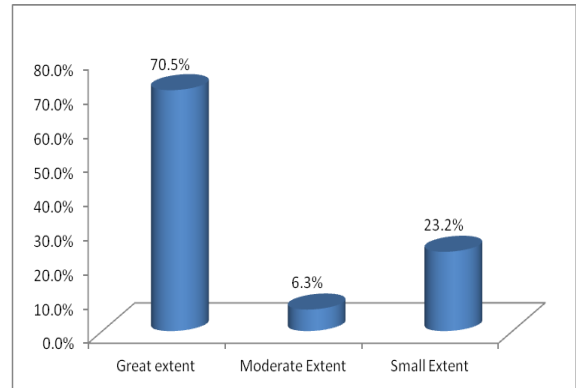
**Effect of Product Development to the Competitiveness of EAPCC**

The study requested the respondents to indicate the effect of product development to the competitiveness of EAPCC. The results were as shown in the figure below.

**Table 4.3 Ideal Customers**

Customers	Frequency	Percent
Corporate	94	83.9
Individuals	18	16.1
<b>Total</b>	<b>112</b>	<b>100.0</b>

According to the findings, majority of the respondents indicated that ideal customers for EAPCC were corporate at 83.9% and only 16.1% indicated the ideal customers to be individuals. This is an indication that corporate customers have the capability to buy the products in large quantity and



**Figure 4.3: Effect of Product Development**

According to the findings, majority of the respondents as shown by 70.5% indicated that product development influenced competitiveness of EAPCC was to a great extent, 23.2% indicated to a small extent while 6.3% of the respondents indicated to a moderate extent. These findings collaborates with those of Kotler and Armstrong (1996) who reported that product development strategy kept customers satisfied and stayed ahead of the competition.

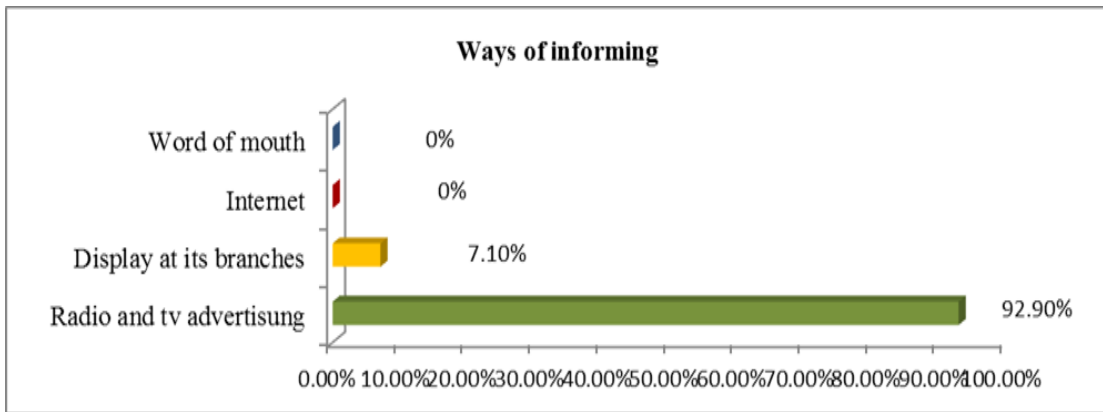
**Market Development  
The Ideal Customers of EAPCC**

In this section, the study sought to determine the ideal customers of EAPCC. The results are as shown in the table below.

this would also increase the customer base of EAPCC.

**How EAPCC Informs its Potential Customers of its New Products**

The study sought to determine how EAPCC informs its potential customers of its new products. The results are shown in figure below



**Figure 4.4 Ways of Informing Potential Customers**

The study findings revealed that EAPCC uses radio and TV advertising were the most used channel to inform potential customers of its new products as shown by 92.9%. Others indicated that the company employed use of display method at its branches to reach the potential customers as shown by a mean of 7.1%. None of the respondents recognized internet and use of word of mouth as a

method of advertising its products to the customers.

**Strategic Position Pursued by EAPCC**

The respondents were asked to indicate the strategic position pursued by EAPCC. The findings were as shown in the table below.

**Table 4.4: Strategic Position Pursued**

Position	Frequency	Percent
Market leader	91	81.3
Market follower	21	18.8
<b>Total</b>	<b>112</b>	<b>100.0</b>

According to the study findings, majority of the respondents indicated that EAPCC were market leaders as shown by 81.3% and only 18.8% indicated that they were market follower. None of the respondents indicated that they were pursuing market follower or market niche.

**Market Development Strategies**

The study sought to determine the extent to which EAPCC had adopted the following market development strategies. The results were represented as shown by the table below.

**Table 4.5: Market Development Strategies**

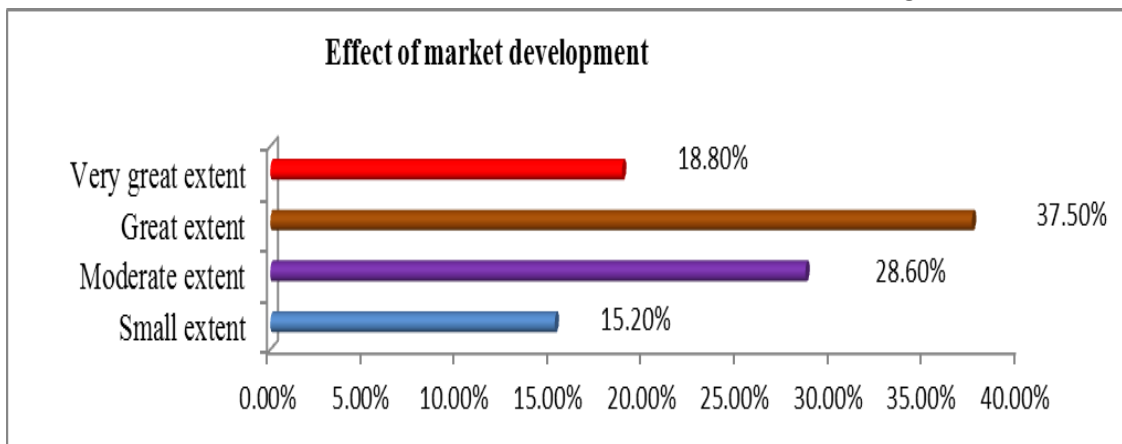
Market development Strategies	Mean	Std. Deviation
Expansion into new geographical markets	3.94	0.91
Introduction of new distribution channels	4.65	0.63
Use of differentiated pricing policies	4.21	0.91
Introduction of new product dimensions/packaging	4.06	0.03

The study results show that the respondents indicated that EAPCC had adopted introduction of new distribution channels to a very great extent as shown by a mean of 4.65 and standard deviation of 0.63. The respondents further indicated that the company had adopted use of differentiated pricing policies to a great extent as shown by a mean of 4.21. They also indicated introduction of new product dimensions or packaging was adopted to a great extent and lastly, they indicated that expansion into new geographical markets was adopted to a great extent as shown by a mean of 3.94. According to Kotler and Armstrong (1996),

market development strategy is used to gain more market share by broadening the consumer base. In pursuing this strategy, the management attempts to sell the existing product range in a new market. This means that the product remains the same but it is marketed to a new audience.

#### **Effect of Market Development to the Competitiveness of EAPCC**

The respondents were asked to indicate the extent to which market development affected competitiveness of EAPCC. The results were as shown in the figure below.



**Figure 4.5: Effect of Market Development**

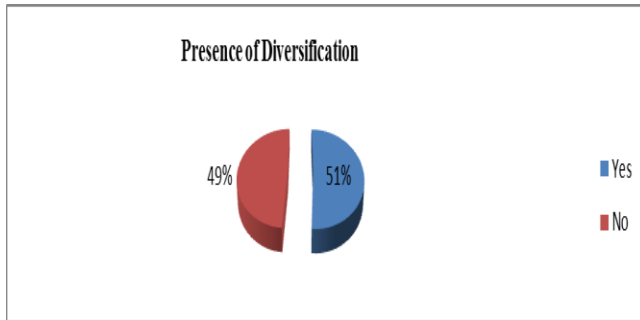
According to the findings of the study, 37.5% of the respondents indicated that market development affected competitiveness of EAPCC to great while 18.8% indicated the effect was to very great extent. On the other hand, 28.6% indicated market development affected competitiveness of EAPCC to moderate extent. The findings indicate that market development influenced competitiveness of EAPCC to a great extent. These findings are in line with those of Porter (1985) who reported that market development strategy ensures that the same product is used to serve a different market; such a strategy helps a firm to gain more market share by broadening the consumer base.

#### **Diversification**

##### **4.5.1 Products that EAPCC Produce Other than Cement Products**

In this section, the study sought to determine other products that EAPCC may have been producing other than cement products. The findings were as represented in the figure below.





**Figure 4.6: Presence of Diversification**

Majority of the respondents (51%) indicated that the company was producing other products. The respondents stated that the company was producing other products such as, cabros, paving

**Table 4.6 Diversification Strategies**

Diversification strategies	Mean	Std. Deviation
Introduction of new products related to cement	3.91	0.09
Introduction of new products /services that are commercially unrelated	4.85	0.07
Use increased innovations	3.10	0.25

Results show that the respondents indicated that introduction of new products and services that are commercially unrelated was adopted to a very great extent as shown by a mean of 4.85 while introduction of new products related to cement was also adopted to a great extent as shown by a mean of 3.91. On the other hand, the respondents indicated that use of increased innovations was adopted to a moderate extent.

**Table 4.7: Reasons for Influence**

Reasons	Opinion	Frequency	Percentage
To enter new markets	Yes	111	99
	No	1	1
Enhance competitiveness	Yes	112	100
	No	0	0
To overcome low performance	Yes	57	51
	No	55	49
To reduce overall company risks	Yes	41	37
	No	71	63

blocks and precast products. However, 49% were of the contrary opinion.

### Diversification Strategies

The study requested the respondents to indicate the extent to which the organization had adapted the below diversification strategies. The results were as shown in the table below.

### Reasons that Influence Company's Decision to Diversify

The study first required the respondents to indicate whether the below reasons influenced the company decision to diversify. The results were as shown in the table below.

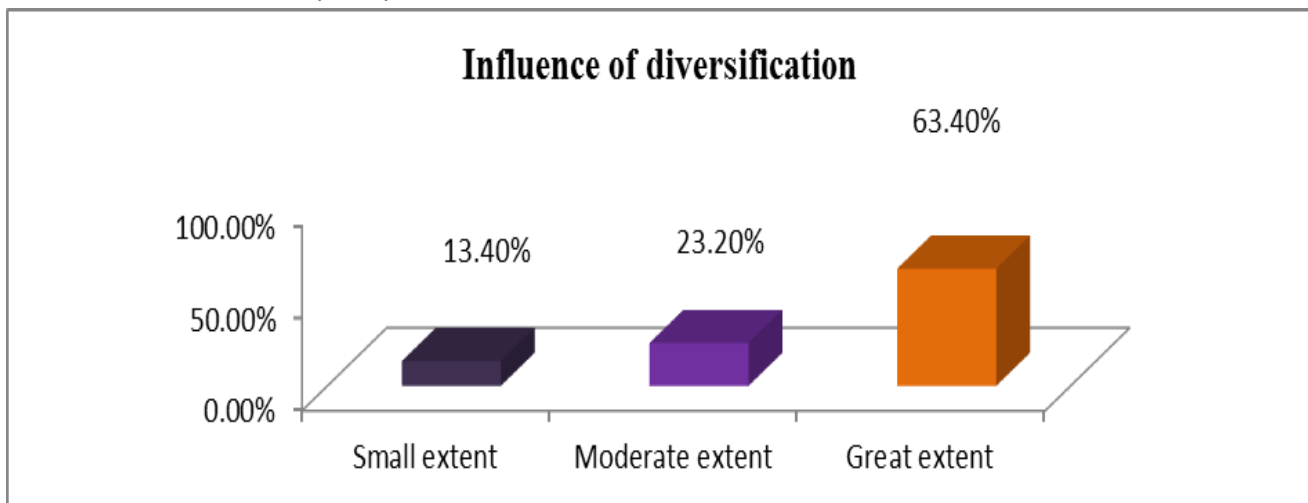
To exploit both tangible and intangible resources	Yes	58	52
	No	54	48

The study results show that 100% indicated that enhancing competitiveness influenced the company's decision to diversify, 99% indicated entering new markets influenced while as 1% was on contrary, 52% indicated that exploitation of both tangible and intangible resources influenced diversification while as 48% indicated otherwise and 51% indicated the reason to diversify of the company is to overcome low performance and 49% indicated otherwise. Lastly, only 37% indicated that

the reason to identify was to reduce overall company risks which were on contrary to 63% of the respondents.

#### **Influence of Diversification on Competitiveness**

The study sought to determine the extent to which diversification influenced competitiveness of the EAPCC. The results were as illustrated in the figure below.



**Figure 4.7: Influence of Diversification**

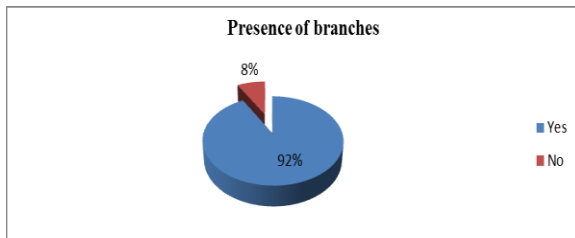
The findings in figure above show that diversification influenced the competitiveness of the East African Portland Cement to a great extent as shown by 63.4%. However, 23.2% indicated that diversification influenced competitiveness of the firm to a moderate extent while 13.45% indicated to small extent. This is an indication that diversification enhanced competitiveness of the company to a great extent. These findings are in agreement with those of Hitt et al. (2000) who revealed that diversification is a product-market growth strategy which enables a firm to develop a new product that serves a different market than what it was serving before which facilities a

company's future growth and competitive advantage.

#### **Market Penetration**

##### **Presence of EAPCC Branch Network in Kenya**

The study requested the respondents to indicate whether there were EAPCC branches in Kenya. The results were as shown by the figure below.



**Figure 4.8: Presence of branches**

Majority of the respondents (92%) indicated that EAPCC had a branch network across the country.

**Table 4.8: Company's Market Share**

Market Share	Frequency	Percent
15-30%	86	76.8
30-45%	8	7.1
45-55%	8	7.1
over 55%	10	8.9
<b>Total</b>	<b>112</b>	<b>100.0</b>

The study results show that majority of the respondents (76.8%) indicated that the company's share was 15-30 percent while 8.9% indicated that it was over 55 percent. On the other hand, 7.1% of the respondents indicated they had 30-45 percent and 45-55 percent market share respectively.

**Table 4.9: Distribution of Company's Product**

Distribution	Frequency	Percent
Through its branches	103	92.0
Through its partners	9	8.0
<b>Total</b>	<b>112</b>	<b>100.0</b>

The results show that 92% of the respondents indicated that the company distributed its products and services through its branches and 8% indicated that the distribution was done through its partners.

#### **Strategies Pursued to Increase Market Penetration**

The respondents were requested to indicate the strategies they pursued to increase their market penetration. From the results of the study, the respondents indicated that they did aggressive marketing, introduced new products, offered incentives and reduced prices, enhance quality

The respondents stated that they had depots in all major towns and municipalities. This was as indication that the company's products were present across the markets in the country.

#### **Company's Market Share in the Cement Industry**

The respondents were asked to indicate the market share in the cement industry. The results were as shown in the table below.

#### **Distribution of Company's Product or Service to its Primary Market**

In this section, the respondents were asked to indicate distribution of company's product or service to its primary market. The results were as shown in the table below.

products and services, used new distribution channels, increased customer satisfaction, opened virtual depots, they enhanced operational efficiency and effectiveness and carried out promotions.

#### **Extent to which EAPCC has Adopted Market Penetration**

The study requested the respondents to indicate the level of agreement on the extent EAPCC has adopted the market penetration strategies. The results were as shown in the table below.

**Table 4.10: Adoption of Market Penetration Strategies**

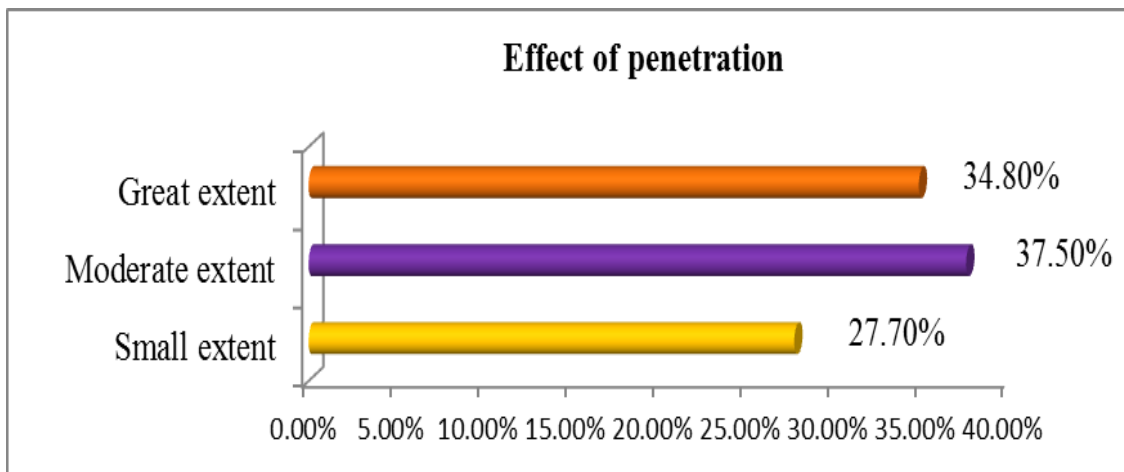
Strategies	Mean	Std. Deviation
Use of competitive pricing strategy	3.56	0.22
Increased advertising	3.12	0.76
Use of sales promotions	3.48	0.91
Use of loyalty scheme	3.84	0.87

Study findings show that the respondents agreed as shown by a mean of 3.84 that the company greatly adopted loyalty as a market penetration strategy. The respondents also agreed they adopted use of competitive pricing strategy as shown by a mean of 3.56. In addition, the respondents also agreed that they adopted sales promotions as shown by a mean of 3.48. Advertising was adopted to a moderate

extent as shown by a mean of 3.12 on the likert scale.

**Effect of Market Penetration on Competitiveness**

The study sought to determine the extent to which market penetration enhanced the competitiveness of EAPCC. The results were as shown in the figure below.



**Figure 4.9 Effect of Market Penetration**

The study findings show that 37.5% of the respondents indicated that market penetration enhanced the company’s competitiveness to a moderate extent. However, 34.8% indicated market penetration enhanced the company’s competitiveness to a great extent while 27.7% indicated to a small extent. Though the findings show that market penetration enhanced competitiveness of EAPCC to a moderate extent; Kotler and Armstrong (1996) revealed that this strategy involves finding new customers which are

in the same market but did not use the product yet and that it is a more effective strategy which generates more consumers to the company; hence gaining becoming competitiveness in the market.

**Firm’s Competitiveness**

**Competitive Aspects of the Organization**

The study sought to determine the level of agreement by the respondents on various

statements relating to influence of growth strategies on competitive aspects of the

organization. The results were as shown in the table below.

**Table 4.11: Firm’s Competitiveness**

	Mean	Std. Deviation
The growth strategies have expanded the company’s market share	3.50	0.58
The growth strategies have enhanced increased production capacity	3.12	0.78
There has been increased efficiency	3.73	0.12
The growth strategies have enhanced increased quality of the products	3.13	0.89
The growth strategies have led to low cost pricing of the company’s products	2.98	0.79
Company has been able to retain its key markets	3.15	0.08

The respondents agreed as shown by a mean of 3.73 that there has been increased efficiency. They also agreed that the growth strategies had expanded the company’s market share as shown by a mean of 3.50. In addition, the respondents moderately agreed that the company has been able to retain its key markets, the growth strategies have enhanced increased quality of the products and that the growth strategies have enhanced increased production capacity as shown by a mean of 3.15, 3.13 and 3.12 respectively. Lastly, the respondents agreed that the growth strategies had led to low cost pricing of the company’s products as shown by

a mean of 2.98. Also, the respondents indicated that good governance was contributing to business sustainability as it led to increase in sales volume.

**Regression and Correlation Analysis**

The study conducted a multiple regression analysis to determine the form of relationship between growth strategies and the competitiveness of EAPCC. The model took the following form:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$$

Whereby Y =Firm competitiveness, X<sub>1</sub>= Product Development, X<sub>2</sub> = Market Development, X<sub>3</sub> = Diversification, X<sub>4</sub> = Market Penetration

**Table 4.11: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	0.748(a)	0.559	0.540	0.616

a Predictors: (Constant), Product Development, Market Development, Diversification, Market Penetration

The R square is called the coefficient of determination and tells us growth strategies (product development, market development, diversification, and market penetration) varied with firm competitiveness in EAPCC. The results in Table

4.11 show that the value of adjusted R<sup>2</sup> is 0.540. This implies that there was a variation of 54% between growth strategies and firm competitiveness. This means that, product development, market development, diversification,

and market penetration explained 54% of firm competitiveness in EAPCC; the remaining

percentage would be explained by other variables not included in the study.

**Table 4.12: Analysis of Variance- ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	44.319	4	11.080	29.158	0.000(a)
Residual	34.959	92	0.380		
<b>Total</b>	<b>79.278</b>	<b>96</b>			

a Predictors: (Constant), Product Development, Market Development, Diversification, Market Penetration

b Dependent Variable: Firm Competitiveness

The study used ANOVA to establish the significance of the regression model from which an f-significance value of  $p=0.001$  was established. This shows that the regression model has a 0.001

probability of giving a wrong prediction. This therefore means that the regression model has a confidence level of 99.9% hence high reliability of the results.

**Table 4.13: Coefficients Results**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.680	0.481		1.416	0.160
Product Development	0.090	0.128	0.078	0.706	0.482
Market Development	0.226	0.106	0.213	2.125	0.036
Diversification	0.782	0.102	0.554	7.691	0.000
Market Penetration	0.604	0.101	0.482	5.980	0.000

a Dependent Variable: Firm Competitiveness

The co-efficient results presented in Table 4.13 show that there is a positive relationship between firm competitiveness and all the four predictors as shown: product development ( $\beta = 0.090$ ), market development ( $\beta = 0.226$ ), diversification ( $\beta = 0.782$ ), market penetration ( $\beta = 0.604$ ). This implies that a unit increase in product development would increase firm competitive at a unit of 0.090, a unit increase in market development would increase firm competitiveness at a unit of 0.226 while a unit increase in diversification and market penetration

would lead to an increase in firm competitiveness at a unit of 0.782 and 0.604 respectively.

On the other hand, the study shows that there is a statistically significant relationship between firm performance and three of the growth strategies as shown: market development ( $p=0.036<0.05$ ), diversification ( $p=0.000<0.05$ ), market penetration ( $p=0.000<0.05$ ). This implies that market development, diversification and market penetration are significant growth strategies to EAPCC and Kenyan Cement industry in general.

**Table 4.14: Pearson Correlation Results**

		Product Development	Market Development	Diversification	Market penetration	Firm Competitiveness
Product Development	Pearson	1	.700(**)	.100	.497(**)	0.224(*)
	Sig.	.	.000	.330	.000	0.028
Market Development	Pearson	.700(**)	1	-.095	.295(**)	0.069
	Sig.	.000	.	.354	.003	0.503
Diversification	Pearson	.100	-.095	1	-0.053	0.568(**)
	Sig.	.330	.354	.	0.591	0.000
Market penetration	Pearson	.497(**)	.295(**)	-.053	1	0.330(**)
	Sig.)	.000	.003	.591	.	0.001
Firm Competitiveness	Pearson	.224(*)	-.069	.568(**)	0.330(**)	1
	Sig.	.028	.503	.000	0.001	.

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

The Pearson correlation results in Table 4.14 show that there was a positive and significant relationship between firm competitiveness in EAPCC and the growth strategies and shown: product development ( $\beta = 0.224$ ,  $p=0.028$ ), diversification ( $\beta = 0.568$ ,  $p= 0.000$ ), market penetration ( $\beta =0.330$ ,  $p= 0.001$ ). However, the study found a positive but statistically insignificant relationship between firm competitiveness and market development as shown by  $\beta =0.069$  and  $p= 0.503$ . The results show that product development, diversification and market penetration had a significant effect on competitiveness of EAPCC and Cement industry in Kenya.

## SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

### Introduction

This chapter presents a summary of the findings, conclusions and recommendations for practice and further research on the problem. The study sought to determine the effect of growth strategies on the competitiveness of companies in the Kenyan Cement industry, to find out the effect of product development on the competitiveness of companies in the Kenyan Cement industry, to ascertain the

effect of Market development on the competitiveness of companies in the Kenyan Cement industry, to establish the degree with which diversification affects the competitiveness of companies in the Kenyan Cement industry and to determine the effect of market penetration on the competitiveness of companies in the Kenyan Cement industry.

### Summary of findings

#### Product Development

The study found that the number of products or services the East African Portland Cement Company were less than 5 as it was indicated by 70.5%. Also, the respondents indicated that there was differentiation for the products features as shown by 92.9% in the company. In addition, the respondents indicated that Blue triangle cement was differentiated by making it mostly brighter than the rest, cement packaging with a triangle at the centre of the bag and making it stronger. The differentiation was also indicated to have been done to a great extent. On the products developed to target current customers, the respondents indicated; precast, concrete blocks, cabro, ordinary

pozzolanic cement, Portland pozzolanic cement and paving and interlocking blocks.

In relation to the various product development aspects that enhance competitiveness of the company, the study found that introduction of new technology in product development enhanced competition to a very great extent as shown by a mean of 4.56. In addition, use of research in product development enhanced competitiveness of the company to a great extent. Also, use of quality enhancements and lastly, the respondents were moderate on introduction of new technology in product development enhanced competitiveness of the product.

### **Market Development**

The study found that, ideal customers were mostly corporate as it was indicated by 83.9%. The study also found that the company mostly used radio and TV for their advertising to inform their potential customers as indicated by 92.9%. According to the study findings, majority of the respondents indicated that EAPCC were market leaders as shown by 81.3% as opposed to 18.8% who indicated that they were market follower.

In relation to the various adopted product market development, the respondents revealed that EAPCC had adopted introduction of new distribution channels to a very great extent as shown by a mean of 4.65 and standard deviation of 0.63. Also, use of differentiated pricing policies, introduction of new product dimensions or packaging and expansion into new geographical markets was adopted to a great extent. In addition, 37.5% indicated that market development affected competitiveness.

### **Diversification**

The study revealed that the company was producing other products as shown by 51%. In addition, the respondents indicated that the company was producing, cabros, paving blocks and precast products.

In relation to the diversification strategies the organization had adopted, the study found that introduction of new products and services that are commercially unrelated was adopted to a very great extent as shown by a mean of 4.85 and standard deviation of 0.07. Introduction of new products related to cement was also adopted to a great extent and lastly the respondents indicated that use increased innovations was adopted to a moderate extent.

The study revealed that some of the reasons which led to the company decision to diversify were; to enhance competitiveness as shown by 99%, entering new markets, exploitation of both tangible and intangible resources, to overcome low performance and to reduce overall company risk. The study also found that diversification influenced the competitiveness of the East African Portland Cement to a great extent as shown by 63.4%.

### **Market Penetration**

The study found that EAPCC had other branches as indicated by 92%. The respondents indicated that they had depots in all major towns and municipalities. This was an indication that the company would enhance its competitiveness in the market. According to the study findings, majority of the respondents indicated that the company's share was 15-30 percent as shown by 76.8. The results show that 92% of the respondents indicated that the company distributed its products and services through its branches while as others indicated that the distribution was done through its partners.

The respondents also indicated that they did aggressive marketing, introduced new products, offered incentives and reduced prices, enhance quality products and services, used new distribution channels, increased customer satisfaction, opened virtual depots, enhanced operational inefficiency



and effectiveness and carried out promotions to increase their market penetration

In relation to various statements regarding the market penetration strategies adopted by the EAPCC, the respondents agreed that use of loyalty scheme had been adopted as shown by a mean of 3.84 and standard deviation of 0.87. Other respondents agreed with use of competitive pricing strategy. In addition, the respondents also agreed with use of sales promotions. Lastly, they moderately agreed with increased advertising. From the study findings, 37.5% of the respondents indicated that market penetration enhanced the company's competitiveness to a moderate extent, 34.8% indicated to a great extent and 27.7% indicated to a small extent.

### **Growth Strategies and Competitiveness**

Regarding various statements on growth strategies employed and the extent to which they had influenced competitiveness aspects of the organization, the respondents agreed as shown by a mean of 3.73 and a standard deviation of 0.12 that there has been increased efficiency. They also agreed that the growth strategies had expanded the company's market share. In addition, the respondents moderately agreed that the company had been able to retain its key markets, the growth strategies had enhanced increased quality of the products and that the growth strategies had enhanced increased production capacity. Lastly, the respondents agreed that the growth strategies had led to low cost pricing of the company's products. Also, the respondents indicated that good governance had contributed to business sustainability as it led to increase in sales volume.

### **Conclusion**

The study concludes that the number of products and services the company have were not enough to keep it at a competitive edge in the volatile

industry. On the other hand, there was differentiation for the product features in the company such as making the cement brighter and strong than others. The study therefore concludes that there was a positive relationship between differentiation of products and its competitiveness in the industry.

New technology made it possible for the company to compete with other companies offering the same services and products. Also, use of research in product development and quality enhancements were found to be positive in enhancing competitiveness for the company. The study hence shows that use of new technology had no great impact on the competitiveness of the company as indicated by the lowest mean of 3.06 in table 4.2.

The study also concludes that the ideal customers for the company were mostly corporate and this had a positive contribution as it increased the volume of sales. This in turn positions the company at a competitive edge. The study also concludes that radio and TV advertisements were mostly employed in informing potential customers of the products and services.

There was a positive impact of market development to the competitiveness of EAPCC as it had adopted introduction of new distribution channels, use of differentiated pricing policies, introduction of new product dimensions or packaging and expansion into new geographical markets all to a great extent. The company has a positive relationship with its diversification strategies as there are other branches of the company. The study also concludes that the company has a relatively good share of the market. There was a positive relationship between the company and its customers as it offered incentives and reduced prices to the customers. Also the company was found to operate under loyalty scheme. In addition, the study concludes

that the relationship between the company and advertising was positive as it increased the sales volumes of the company.

The study lastly concludes that increased efficiency has a positive impact on the competitiveness of the company as it was able to retain its key markets and also expands its market share. Good governance in the organization led to business sustainability as it led to increase in sales volume.

### **Recommendations**

The study concludes that the number of products and services the company had were not enough to keep it at a competitive edge in the volatile industry. The study therefore recommends that the company should increase its services and products as this would position it in a more competitive edge.

The study also concluded that between the company and the new technology that was introduced in product development; that the new technology made it possible for the company to compete with other companies offering the same services and products. The study therefore recommends modern technology be continuously

employed in the company to enhance competitiveness of the organization.

The study also concludes that the ideal customers for the company were mostly corporate. Therefore, the study recommends that the company should also encourage the individuals to buy their products as that would lead to market diversification. In addition, the study also concluded that radio and TV advertisements were mostly employed in informing potential customers of the products and services. The study therefore recommends that the company should also employ use of internet in advertising to reach more customers hence increasing its competitiveness.

### **Recommendations for Further Research**

This study focused on determining the effect of growth strategies on the competitiveness of companies in the Kenyan Cement industry. The study established that there is positive and significant relationship between growth strategies and firm competitiveness in EAPCC. The study recommends that a similar study be conducted in other cement companies in Kenya for comparison of results.

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