THE APPLICATION OF GROWTH STRATEGIES BY ATHI RIVER MINING LTD

BY

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DECLARATION

This project is my original work and has not been submitted for a degree in any other university.

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This project has been submitted for examinations with my approval as the university supervisor.

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DEDICATION

To my dear wife Pietrina, our lovely children Angela, Allan and Austin and the entire family, your support during the many long hours of study for MBA Examinations at the University and field data collection gave me great inspiration and motivation to complete the postgraduate course and this research project.

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ABSTRACT

A firm that does not attempt to grow will not merely stand still but also stagnate and eventually die. On the other hand well planned expansion is not only stimulating and self sustaining but also present to the executive a challenge similar to the one of difficult climbs in mountaineering. In addition to the managerial stimulus, growth confers tangible financial and strategic benefits to the firm. In the short-run the productivity of the firm is likely to rise as rate of output increases. As the size of the firm increases it is likely to reap economies of scale at both production and managerial levels.

The case study method was used in handling this research problem. Yin (1984) observes that Case study research excels at bringing us to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships.

The data for the research was mainly from both primary and secondary data. The primary data included in-depth interviews, using an interview guide with senior managers of Athi River Mining Ltd. These included the Deputy CEO, Finance Manager, Marketing Manager and Processing Manager. The main tool applied was content analysis. This was necessitated by the fact that this case study involved study of a single firm

Application of any growth strategies presents various challenges to the firm. A firm wishing to pursue growth must therefore put in place sufficient resources to be able to counter these challenges. Market development across national borders has unique challenges due to the need for the firm to comply with laws and regulation in various countries. Apart from the different legal frameworks in different countries, there are also varied social cultural settings which must be surmounted for the firm to effectively develop a new market for its products. In order to sustain an effect market penetration to sustain There are many reasons for pursuing a diversification strategy, but most pertain to management's desire for the organization to grow.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

According to Pearce and Robinson (1999), organizations depend on the environment as a source of inputs in the form of resources and as outlet for their output. The organization has to find a fit between itself and its environment. The environment is however dynamic and for organizations to survive they must constantly scan the environment and respond appropriately to the changes in the environment. According to Ansoff (1990), the environment changes during the 20th century became complex and novel. Changes accelerated in terms of frequency as well as the rate of Diffusion; the speed with which new products and services invade new markets.

During the 21st century the changes in the environment are even more complex and rate of change much faster. According to Kotler (2003), businesses are operating in a globalized economy where things are moving at a nano-second pace; that our markets are characterized by hyper-competition disruptive technologies are challenging every business and businesses must adapt to the empowered consumer. Danielle (2006) contends that as globalization continues to take centre stage, technology is evolving; innovation is set to become every industry's operational motto. Consequently managerial life today is probably tougher than before and getting tougher as emerging global trends force leaders to grapple with complex issues that are having an impact on business world. These include destruction of the ecological environment; changing world demographics; terrorism; pandemics like the bird flu; mobility of capital and labor; the emergence of new economic powers like China and India; global unemployment and the growth of multinational organizations. Gathoga (2001) observes that liberalization of the Kenyan economy in the 1990s and the various measures implemented by the Kenya Government towards a market driven economy brought about unprecedented competition from both local and foreign firms.

Organizations therefore need to develop corporate strategies that are best suited to their strengths and weaknesses in relation to the environment in which they operate. According to Lynch (1997), corporate strategy is the link between the management of the organization's internal resources and its external relationships with customers, suppliers, competitors and the economic and social environment in which it exists. According to Mwanthi (2003), the

Kenyan business environment has been changing over the years with the liberalization of the economy, globalization, price and exchange decontrols in the 1990's and the government divestiture from various parastatals. He further observes that irrespective of the industry or sector in which a firm operates, the changes in the environment have put pressure for change within the organization.

1.1.1 Growth Strategies

Through restructuring and reengineering, large diverse companies have been advised to define and focus on their core business (Zook and Allen, 2001), from which they now face the challenge of how to grow profitably. Shareholders, managers, and employees are increasingly striving for sustainable, profitable growth, often without success.

Sustaining growth requires a strategy for increasing revenue without sacrificing earnings or customer satisfaction. Achieving sustainable profitable corporate growth may be the toughest managerial act in any economy (Harvard Management Update, 1996). From 1983 to 1993, only about 30% of Fortune 1000 companies managed 10% annual compound growth in revenues (Gertz and Baptista, 1995). The vast majority of new businesses start small and stay that way (Bhide, 1999). Numerous firms enter growth situations based on incorrect premises only to endure long painful losses and ultimately embarrassing, costly, and sometimes fatal exits (Aaker and Day, 1986). Gucci, for example, pursued growth by extending its prestigious brand name in luxury leather goods to other products such as watches, eyeglasses, and perfumes, and by expanding its channels of distribution, increasing the top line but eroding the bottom line and alienating its most profitable high-end image conscious consumers (Gadiesh and Gilbert, 1998).

A study of 45 rapidly growing profitable firms by Mascarenhas Et Al. revealed five strategies: (1) product proliferation, (2) mass market development, (3) increasing value to select customers, (4) distribution innovation, and (5) acquisition and consolidation. These five strategies are not restricted to high-growth industries and arise when firms exploit market disequilibrium to their advantage. The profitable growth strategies are based on multiple, reinforcing sources of scale, scope, and time-based advantages.

According to Thompson and Strickland (1989), within the corporate sector, where enterprises are complex to consist of several distinct business units, companies seem to have developed by following a fairly standard strategic path. Majority begin as small single business serving a local or utmost regional market. During the early years, product lines tends to be limited, capital base thin, and the companies competitive advantage tends to be weak. Nearly always the strategic theme during this stage is to expand and grow with chief strategic thrust aimed at increasing sales volume, market share and cultivating customer loyalty. Opportunities for geographical market expansion may be pursued next moving from local to regional. This may stop short of global as a result of fierce competition in the global arena, scarcity of resources or market unattractiveness.

While the ultimate purpose for a corporate growth strategy is long-term strength and performance, the specific goals may vary depending on the company, industry, customers and suppliers, domestic market, and production technology. Ansoff and McDonnell (1990) contend that apart from the need to increase profitability and returns, firms also seek growth to create synergy which arises from sharing resources and capabilities common among strategic business units. Ansoff and McDonnell (1990) further observe that in a turbulent and surpriseful environment pursuit of performance enhancement objectives is not enough. Firms also need to hedge against the risk to earnings by limiting or diversifying the percentage of profits derived from a single business unit.

Growth strategies have been one of the issues most often treated in the literature in the last few years. More specifically, the different forms they can adopt and their influence on the scope and success of competitive advantages have been the object of extensive research (Robins and Wiersema, 1995; Suárez, 1999). One of the pioneers in this field was Penrose (1962), in whose opinion the enterprise simultaneously faces a series of stimuli and difficulties, both internal and external, in its growth.

The growth of a firm is something inherent to its actual existence. Throughout their life, firms must grow continuously if they want to at least maintain their competitive position within an environment where other rival firms may be growing at a faster pace. Nevertheless, if the firm wishes to improve its relative position, then it will have to grow faster.

In short, enterprises must seek continuous growth with the aim of increasing or simply maintaining their sales and profits levels, so that their survival can be guaranteed.

However, due to the characteristics of the current competitive environments, firms find it more difficult to ensure the growth rate required. In some specific environments, the possibility of growing through the same product-market contexts can become particularly difficult, which is why firms operating in those markets may opt for growth strategies that involve starting activities in a different business (i.e. diversification strategies).

1.1.3 Athi River Mining Company Ltd

Athi River Mining (Kenya) Ltd. was established in 1974 by Mr. H.J Paunrana as a mineral extraction and processing company and is now public limited company quoted on the Nairobi Stock Exchange. ARM is in the business of the manufacture of various mineral products including the following; Cement and building products quick & Hydrated Lime, sodium Silicate, industrial Minerals and fertilizers. According to the annual chairman's report (2005), the company has witnessed phenomenon growth over the last five years with turnover increasing from Kshs 884m in 2001 to Kshs 2.2 billion in 2005. The company has also strengthened organizational structure and depth of management to support the growth of the company.

According the Annual report and financial statement (2005), Athi River Mining plays a key role of creating wealth in the Kenyan Economy. Through its activities in mineral extraction, mainly in the rural areas, transportation, capital intensive processing in its factories and distribution throughout Kenya and other countries in Africa, it creates employment for a large number of people both directly and indirectly. The company contributes in excess of Kshs 300 million annually to the exchequer by way of direct and indirect taxes. The company also contributes to the wellbeing of the society through various projects which are beneficial to the society. These include building of water dams and schools for the society, and participation in environmental preservation through use of the latest technology to control emission to the environment and planting of trees in the quarries.

1.2 Statement of the Problem

As the world spins into the first decade of the twenty first century dramatic changes are occurring in the market arena. The pace of change is so rapid that the ability to change has now become a competitive advantage. Rapid technological advances, globalization, social and economic shifts are all causing profound changes in the market place. Globalization has brought about fierce competition from both domestic as well as foreign competitors. Ogolla (2005) observes that the challenge of competition is always present in all industries. Even in situations of monopoly organizations may be faced with the competition from substitute products. Faced with the challenge of competition, increased stakeholder expectations and the need to survive and succeed in the market place, the need to pursue growth is inevitable. Companies need to grow if they are to compete more effectively, satisfy there share holders and attract top talents Kotler and Armstrong (2001). Growth creates a vital enthusiastic corporation where people see genuine opportunity.

The need for knowledge on relationships between company settings and appropriate business strategies is apparent for any company wishing to evaluate its strategy in response to changing markets, competition or other forces.

Like other organizations in Kenya today, Athi River Mining faces various challenges as a result of changes in the environment. Competition from its key competitors; Bamburi Cement the subsidiary of global multinational Lafarge and East African Portland cement has been a key challenge. The high energy costs in Kenya coupled with increasing logistical challenges owing to inadequate transport and telecommunication infrastructure are other challenges facing the Company. In addition to this the company has to contend with more stringent environmental requirements by the National Environmental Management NEMA as well changing economic and technological environment.

For the Company to overcome the challenges from the rapidly changing environment and achieve its objectives, it requires a strategy that enables it to identify opportunities in the environment and adapt its resources and competencies to take advantage of these opportunities. The strategy will enable the firm to compete effectively in the market place and also meet stakeholder expectations. In particular Athi River Mining has to select a superior strategy that will help it realize a competitive advantage in the environment. Ansoff growth strategies present one of the strategic options available to Athi River Mining as it position itself in the market place.

Studies on the strategic responses to changes in the environment have been done by Kibiru (1999), Njau (2002), Kiptugen (2003), Mwanthi (2003), Thuo (2003), Kiilu (2004), Ogolla

(2005) mainly focusing on: Achieving competitive advantage through differentiation of market offerings: The case of chemical fertilizers importing companies in Kenya; Strategic responses by firms facing changed competitive conditions – East African Breweries Ltd; Strategic responses to a changing competitive environment, the case of Kenya Commercial Bank; Strategic responses of BAT (k) Ltd to current environmental challenges. Diversification strategy the case of the Nation Media Group; A Survey of the extent of application of Ansoff growth strategies in the public utility sector in Kenya; Application of Porters Generic model by Insurance Companies in Kenya.

Due to contextual, sectoral and managerial differences among these organizations, their strategic responses and growth experiences would not be assumed to explain the growth strategies adopted by Athi River Mining, the challenges encountered and the responses to these challenges. Further research shows that a specific study like the one proposed has not been undertaken before.

The study focuses on the application of the growth strategies by Athi River Mining. The proposed study aims to seek responses to the following research questions

i) Which growth strategies have been applied by Athi River Mining in its pursuit of growth?

ii) What challenges has it encountered in the implementation of the growth strategies and how has it addressed such challenges?

1.3 Objectives of the Study

The objectives of the study were:

i) To establish the growth strategies applied by Athi River Mining in its pursuit of growth.

ii) To find out the challenges faced in the implementation of growth strategies and the measures taken to overcome such challenges.

1.4 Significance of the study

It is anticipated that the results of the study will be of particular importance to

i) The management of Athi River Mining Company; As a source of information for evaluating the growth current strategies applied by the company.

ii) Other organizations that are pursuing or intending to pursue growth may use the results of the study to learn from the experiences of ARM.

iii) Academic Researchers: The study may expand the existing body of knowledge on growth strategies and probably stimulate interest that will lead to further research in related facets of growth.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Strategy

According to Johnson and Scholes (2004), strategy is the direction and scope of an organization over the long term which achieves advantage organization through its configuration of resources within a changing environment and to fulfill stakeholders expectations. The aim is to develop a strategic fit by identifying opportunities in the environment and adapting its resources and competencies to exploit the opportunities. Lynch (1997) concurs that strategy is the matching of resources and activities of an organization to the environment in which it operates. It acts as a link between the management of the organization's internal resources and its external relationships with customers, suppliers, competitors and the economic and social environment in which it operates. According Thompson (1989) a strategy consists of a pattern of moves and approaches defined by management to produce successful organization performance; in simpler terms it is the managerial game plan.

Superior strategy enables the firm to gain competitive advantage and hence become successful. According to Markides (1999), superior strategy is all about finding and exploiting a unique strategic position in the company's business while at the same time searching for new strategic positions on a continuous basis. In every industry there are several viable positions that a company can occupy. The essence of strategy therefore is to choose the one position that the company should occupy. A strategic position is about finding answers to the following three questions; Who should I target as customers? What products or services should I offer them? And How should I do this? (Markides 1999).

"Despite the obvious importance of a superior strategy to the success of an organization, and despite the decades of academic research on the subject, there is little agreement among academics as to what strategy really is" (Markides 1999). An organization's strategy consists of a pattern of moves and approaches defined by management to produce successful organization performance; in simpler terms it is the managerial game plan (Thompson 1989)

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Therefore strategy is also about making choices regarding the markets in which the firm wish to operate, the products/services to offer and how to reach the chosen markets. The choices made should however be within the internal capacity of the firm and in line with the vision and mission of the firm.

This element of strategy is well captured by the definition by Johnson and Scholes; Strategy is the direction and scope of an organization over the long term which achieves advantage organization through its configuration of resources within a changing environment and to fulfill stakeholders expectations Johnson and Scholes (2004). Strategy can be seen as the matching of resources and activities of an organization to the environment in which it operates.

The aim is to develop a strategic fit by identifying opportunities in the environment and adapting resources and competencies to take advantage of these. According to Lynch (1997) corporate strategy is the link between the management of the organization's internal resources and its external relationships with customers, suppliers, competitors and the economic and social environment in which it exists. Lynch (1997) contends that one of the key elements of a strategy is that it should offer a competitive advantage that will allow the organization to grow since corporate strategy usually takes place in a competitive environment. Therefore the essence of strategy is to position the firm to take advantage of opportunities in the environment. The element of strategy being long term is emphasized in this case. Since the environment is dynamic it is necessary to continuously survey the environment and evaluate the position in view of the prevailing conditions and the firm's internal capacity. Quinn (1999) contends that the essence of strategy whether military, or business is to build a posture that is so strong in selective ways that the organization can achieve its goals despite the unforeseeable external forces. Porter (1985) argues that competition is at the core of the success or failure of the firms. Competition determines the appropriateness of a firms activities that can contribute to its performance, such as innovations, cohesive culture or a good implementation.

2.2 Growth Strategies

According to Thompson and Strickland (1989), within the corporate sector, where enterprises are complex to consist of several distinct business units, companies seem to have developed by following a fairly standard strategic path. Majority begin as small single business serving a local or utmost regional market. During the early years, product lines tends to be limited, capital base thin, and the companies competitive advantage tends to be weak. Nearly always the strategic theme during this stage is to expand and grow with chief strategic thrust aimed at increasing sales volume, market share and cultivating customer loyalty. Opportunities for geographical market expansion may be pursued next moving from local to regional. This may stop short of global as a result of fierce competition in the global arena, scarcity of resources or market unattractiveness.

Aaker (1998) on the other hand contends that many firms focus on improving results by downsizing, restructuring, redeploying assets and reducing costs. There is however a limit as to how much you can improve performance using efficiency programs. There is therefore a realization that the road to improved performance must involve renewed emphasis on growth. Growth not only provides the potential for enhanced profitability but also introduces vitality in the business by providing challenges and rewards. According to Grant (1998), the key challenge of contemporary executives is maintaining the momentum that has been built up over the years. He contends that in the past the principal sources of profitability have been cost cutting, divesting from underperforming assets and process reengineering but these are no longer available. The simple answer is to shift from cost cutting mode to revenue growth.

Howe (1986) argues that incentives for growth include the need for survival. A firm that does not attempt to grow will not merely stand still but also stagnate and eventually die. On the other hand well planned expansion is not only stimulating and self sustaining but also present to the executive a challenge similar to the one of difficult climbs in mountaineering. In addition to the managerial stimulus, growth confers tangible financial benefits to the firm. In the short-run the productivity of the firm is likely to rise as rate of output increases. As the size of the firm increases it is likely to reap economies of scale at both production and managerial levels.

According to Johnson and Scholes (2004), apart from fitting the organization into the changing business environment, organizations pursue growth in order to stretch and exploit the existing competencies and resources as well as meet the expectations created by regulatory and governance framework as well as powerful stakeholders. Growth may also be driven by the need to respond to the environment by fitting the business into the environment. Business growth however is not without challenges and constraints. In her analysis of the growth of the firm E.T. Penrose (1959) contends that while the size of the firm is not determinate, the rate of growth is dependent upon the capability of the existing management team and the rate at which this capacity could be expanded. She argues that if a firm deliberately or inadvertently expands its organization more rapidly than the individuals in the organization can obtain the experience, the efficiency and effectiveness of the firm might suffer. Other constraints include scarcity of financial resources and non managerial inputs like raw materials.

Some of the approaches to growth include licensing where a company is allowed to manufacture a product or service which has been designed by some else and is protected by a patent (Thompson 1993). One of the arguments in favor of this arrangement is that production and labor relations problems are avoided enabling the business to concentrate on the areas it has an expertise and competitive advantage.

Acquisition of an existing business is probably the most popular approach to corporate growth requiring an established organization has the advantage of a much quicker growth and entry into a new market while at the same time a way to overcome barriers such as technology, patents inexperience and access to reliable suppliers. According to Crosby (1994), acquiring an existing business has an advantage because there is already an infrastructure in place as well as goodwill and reputation. Johnson and Scholes (2002) concurs that acquisition is attractive because of the speed with which it allows the company to enter new product or market areas. In cases where markets are static and market shares are relatively steady acquisition is an a preferred strategy to grow the market share. According to Hill (2001), mergers and acquisition is one of the principal vehicle by which companies enter new product markets and expand the size of their operations.

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A firm can also pursue organic growth where an organization grows by developing internally. This involves identifying opportunities in the market, raising finance, setting up another operational base, developing new products, marketing and expanding the existing product lines. Compelling factors include: Products that are highly technical in design or method of manufacturing, companies may also choose to develop new products since the process of development as a way of acquiring skills and knowledge to exploit the product and compete successfully. Resources available: the short line may also constrain a firm to develop in any other way.

According to Banerjee (1998), franchising is one of the alternative strategies for growth which is also perhaps the least risky way of expanding a business in to new market. This is mainly because no capital is tied up in production or market development work, and profit comes in through royalties. According to Lynch (1997), it is the a form of licensing agreement in which the contractor provides the licensee with a preformed package of activity such as brand name, technical service expertise or patent.

According to Johnson and Scholes (2004), Joint venture is an arrangement where two or more organizations shares resources and activities to pursue a strategy. Such resources may include skills, materials, innovation, finances and access to markets. Joint ventures take advantage of complimentarity of the two organizations and the synergic advantage of the joint effort. McCarthy (1996) indicates that joint venture have become increasingly important due to the changing technological changes, high cost of projects hence the cost of failure is also high. Joint ventures are common in the oil industry, and are often cooperation between a local and foreign company.

A study of 45 rapidly growing profitable firms by Mascarenhas Et Al. revealed five strategies: (1) product proliferation, (2) mass market development, (3) increasing value to select customers, (4) distribution innovation, and (5) acquisition and consolidation. These five strategies are not restricted to high-growth industries and arise when firms exploit market disequilibrium to their advantage. The profitable growth strategies are based on multiple, reinforcing sources of scale, scope, and time-based advantages. The study details the steps needed to implement each growth strategy and potential pitfalls to avoid.

Sustaining growth requires a strategy for increasing revenue without sacrificing earnings or customer satisfaction. Achieving sustainable profitable corporate growth may be the toughest managerial act in America (Harvard Management Update, 1996). From 1983 to 1993, only about 30% of Fortune 1000 companies managed 10% annual compound growth in revenues (Gertz and Baptista, 1995). The vast majority of new businesses start small and stay that way (Bhide, 1999). Numerous firms enter growth situations based on incorrect premises only to endure long painful losses and ultimately embarrassing, costly, and sometimes fatal exits (Aaker and Day, 1986).

Gucci, for example, pursued growth by extending its prestigious brand name in luxury leather goods to other products such as watches, eyeglasses, and perfumes, and by expanding its channels of distribution, increasing the top line but eroding the bottom line and alienating its most profitable high-end image conscious consumers (Gadiesh and Gilbert, 1998).

The Product Proliferation Strategy

These companies have Internet related products /services, such as digitized software and support products. Their products have short lives but scale rapidly, have large international demand, and have low marginal production and electronic delivery costs. Firms need to stay one step ahead of rapid changes in technology and quickly diffuse their products overseas

They need to generate resources for continual product development and have a sense of future demand. Firms need to be early movers to dominate their product category. Thus firms should bring in professional management and financing early on, even before the firm is profitable. Product development must be rapid and continuous. Marketing should aid rapid product development and international diffusion. Customer service must also be developed to serve a distributed customer base. Finally, organizational and employee responsiveness to rapid change must be enhanced.

This strategy involves reconfiguring a manufactured product that changes expectations, revealing a new, mass market potential. This large potential market, however, needs to be developed over time with limited firm resources. To achieve the market potential, regulatory, cultural, transportation, production, and cost barriers need to be overcome. As the large market potential becomes known, the firm needs to consolidate its position and keep out potential entrants. Firms need to reconfigure a product and focus on a segment with high market potential. They need to conserve resources for use in developing its mass market. Production costs and prices need to be lowered to appeal to a mass market. Marketing should be used to develop a mass market and distribution should be broadened. After establishing a broad market position, firms need to sustain and protect it.

The Increasing Value to Select Customers Strategy

Firms that adopt this strategy are motivated by constraints that limit expansion with their original strategy. The constraints may be a limited pool of skilled people or competition that limits geographic expansion and sales growth. By challenging conventional assumptions and market norms, these firms recognize that they can increase customer and firm value by broadening their product line and restricting their geographic scope. They find profitable growth by leveraging their limited resources and adding value to a smaller set of choice customers. To implement this strategy, firms need to identify and prioritize their efforts on a smaller set of important clients. They then need to develop a closer relationship with these clients. Finally, they need to redesign their product offerings to provide more value to these customers

2.3 Application of Growth Strategies in Firms

2.3.1 Management Attitudes

The relationship between entrepreneurial attitudes and firm growth is important for at least three reasons. First, it is widely believed that the entrepreneurs of a firm place a lasting stamp on their companies that influences the cultures and behaviors of their firms (Mullins, 1996). Second, investors and others often assess the potential of a new venture by evaluating the attributes of its entrepreneurs. One of the most important criterions used by venture capitalists, for example, in deciding whether to fund a firm is their perception of the entrepreneur's or the entrepreneurial team's ability to successfully launch the venture. Third, launching a new firm is a challenging process.

As a result, individual difference variables, such as educational attainment and prior industry experience, have in many instances been found to be critical in successfully launching a new firm (Barringer *et al.*, 2005).

Regarding decisions linked to business growth, Morck *et al.* (1990, p. 31) asked whether bad results obtained by firms lead them to make wrong decisions; the answer was "yes". Their line of reasoning was that bad performance may reveal the presence of managers who are inefficient or overestimate the possibilities of growth strategies, or maybe concern themselves only with their own interests instead of trying to maximize the value of shareholders with their decisions. On the other hand, Wolfe (2005) found evidence according to which diversified firms (regardless of the diversification modality) obtained worse results than specialized firms, even after introducing the industry effect correction. Quittner, (2005) was also of the opinion that diversification reduces the value of the enterprise, since costs exceed benefits, a conclusion for which they found support in studies like the above-mentioned research work by Wolfe (2005), Wyckoff, (1992), and Long, (2000), among others.

2.3.2 Entrepreneurial Strategy

Entrepreneurial strategy is an important factor for difference between rapid-growth firms and lower-growth firms Wolfe (2005). First, SME strategy is different from the strategy taken by large firms. Entrepreneurial strategy may affect all business activities in the progress of firm growth. Second, after a firm gets established and starts growing, the smaller firms usually are under bigger influence from entrepreneurs. And larger firms are in need of more professional management. Entrepreneurial strategy functions all the time. Hence, it is important for entrepreneurship researchers to recognize the importance of entrepreneurial dimensions of strategy in addition to individual level entrepreneurship (Miller, 1983). Wolfe (2005) suggests that entrepreneurial dimensions of a firm's strategy are seen as a combination of risk-taking, proclivity, and innovativeness.

2.3.3 Environment

Wiklund suggests that task environmental characteristics in terms of dynamism, hostility and heterogeneity have been argued to be critical for suitable strategic choices, i.e. particular strategies are likely to lead to better performance depending on the level of environment dynamism, hostility and heterogeneity. These dimensions are frequently used in small business growth and performance literature (Brown and Eisenhardt, 1996; Calingo, 1989 1990; Miller, 1983; Miller and Toulouse, 1986). Furthermore, Crittenden, (1992) suggests that each of these three dimensions should influence entrepreneurship orientation (EO), i.e. depending on the degree of environmental dynamism, hostility and heterogeneity; firms with a higher or lower degree of EO may perform better or worse. So the present study about environment includes dynamism, hostility and heterogeneity.

2.3.4 Size of the Firm

Malhotra and Sharma 2002, p. 37) claim that a positive association exists between firm size and unrelated growth due to the fact that these firms will already have a complex structure. If the firm implements related diversification strategies, it will increase its organizational complexity to a greater extent than with unrelated diversification due to the interrelations existing between businesses. Increasing complexity through related diversification may not be suitable due to the higher associated costs. This is why enterprises may frequently opt for an unrelated growth in which an organizational structure based on autonomous units can be adopted. The riskiest growth strategies are undertaken to a greater extent by larger-sized firms.

Continuing with the postulates of resource-based theory, we can also assume that relatively young enterprises will have had less time to develop specific resources due to the shorter duration of the internal accumulation process that takes place throughout the firm's life, as Dierickx and Cool (1989) pointed out. Besides, they will also have more limited access to external resources due to their lower credibility levels and their possibly worse results, considering the recent capital investments required to start operating, compared to a firm with many more years of operation and a higher turnover.

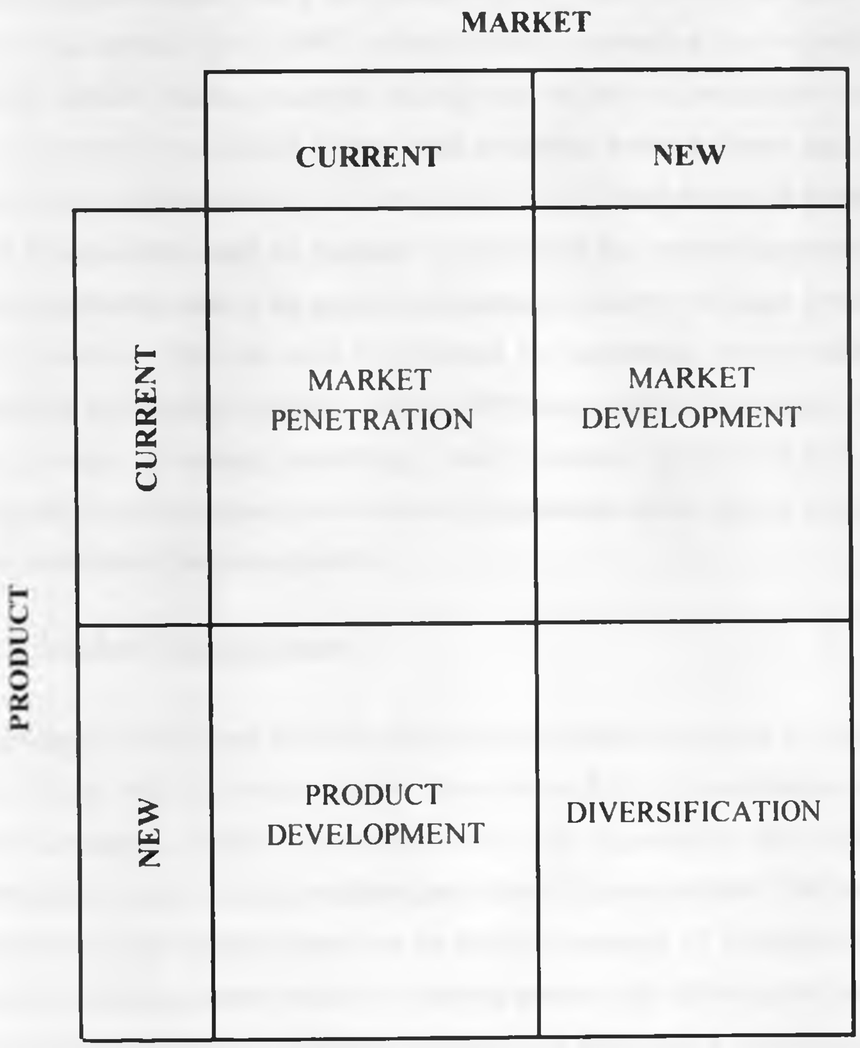
Moreover, according to Strategor (1995, pp. 131-2), the enterprise must concentrate its efforts on a specific business area with the purpose of reaching the best possible competence level in that area, and only when it has achieved a decisive competitive advantage will it have to think of turning its interest towards other businesses. Therefore, the most recently created firms can be expected to focus their attention on the achievement of a strong competitive position in their current activity, since they may not yet have mastered all the necessary competencies. Regardless of firm size and age, one of the reasons for business growth strongly defended from resource-based theory is the existence of an excess of resources within the organization once it has invested the resources required to maintain its current activity level. For Penrose (1962), growth opportunities are present in the firm because there are always unused productive services (Penrose considered the firm's internal resources in terms of the productive services it can deliver) that can be used in new or already existing businesses. This happens not only due to their indivisibility, but also because a learning process takes place during the normal business operating cycle.

Resources can be divided into physical (or tangible), intangible and financial. Following the ideas provided by Chatterjee and Wernerfelt (1991, pp. 35-6), firms with an excess of physical and intangible resources are more likely to grow in business sectors related to their current activity, whereas in the case of firms with an excess of financial resources, it will depend on the type of resources. Given the limitations our database has in estimating the first two groups of resources, we will only refer to the last type.

2.4 Ansoff Growth Strategies

Ansoff's matrix is one of the most well known frameworks for deciding upon strategies for growth. It was first published in the Harvard Business Review (1957) in an article called 'Strategies for Diversification'. It is used by firms who have objectives for growth. Ansoff's matrix offers strategic choices to achieve the objectives. There are four main categories for selection. According to Johnson and Scholes (2004) the matrix provides a tool for conceiving development directions, available to an organization in terms of market coverage, products, coverage, products, competence base and expectations about an organization's strategies. These ranges from strategies concerned with protecting and building an organization's position within its existing products and competencies through to diversification requiring change of products, competencies and entering or creating new market opportunities.

Figure 1: Product market matrix



(Source Kotler 2003, Marketing Management)

2.4.1 Market Penetration

According to Kotler (2003), market penetration involves selling to existing customers more of the same products that you have been selling to them or other products within the existing range of products. Businesses that find themselves in a situation that involves neither new markets nor new products are forced to grow through a market penetration strategy, a strategy that is designed to give the business a greater percentage of market share. This type of strategy usually seeks to gain a competitive edge through pricing, marketing, or other initiatives. This means increasing our revenue by, for example, promoting the product, repositioning the brand, and so on. However, the product is not altered and we do not seek any new customers. Lynch (1997), adds that market penetration may be easier if the market is growing because existing customer loyalties may be less secure and new customers entering the market may be searching for the most acceptable product. Pearce and Robinson (1999) observes that concentration is not only lower on additional resources required but also less risky. Concentration may be pursued by increasing the present customers' rate of usage, finding alternative uses of the products, increasing frequency of usage, promotion and giving price incentives. This can also be achieved by introducing loyalty schemes to increase purchasing by existing customers. Aaker (1998) also observes that market penetration can be done through increasing advertising, trade discounts, promotion and price reduction. Although it is mainly based on the known competencies of the firm, it may be expensive and only ensure steady but slow growth.

2.4.2 Market Development

According to Johnson and Scholes (2004) organizations are selective in their market coverage and this may lead to situations where there are no further opportunities within the current market segments. Under such circumstances, an organization may develop by market development where existing products are offered in new markets. The new market can be geographical (e.g. foreign export) or an untapped segment of a domestic market. It's even possible to develop a new market for existing products by adjusting the product's packaging or expanding the product's distribution channels. In any event, a market development growth strategy requires a working knowledge of existing markets and the ability to identify gaps in the marketplace that can be exploited to your advantage. Pearce and Robinson (2002), contends that apart from concentric growth market development is the least costly and risky approach for growth. It mainly consists of marketing of existing products sometimes with cosmetic modifications to customers in related markets. Johnson and Scholes (2004) further argue that both resource and market based considerations might drive an organization's development into a new market markets. For instance where products can be exploited in other markets segments where similar critical success factors exist. Development of new uses for existing products; for instance manufacturing of stainless steel have progressively found odor, form, shape; magnifying existing features to make them bigger, longer stronger; developing additional models for instance in the motor vehicle industry and variation in the quality of the product. However, a product development strategy can be just as challenging as a market development strategy because it often requires the business to develop new abilities and continuously adapt the products until they achieve marketplace success.

2.4.4 Diversification

According to Pearce and Robinson (1997) diversification represents a distinctive departure from a firm's existing operations; typically the internal generation or acquisition of a separate business with synergistic possibilities. Concentric diversification involves acquisition of businesses that are related to the existing business in terms of technology, market or products. Johnson and Scholes (2004) indicate that unrelated diversification is where an organization moves beyond its current value system, industry and current competencies. They argue that diversification into new markets and new products exploiting current competencies of the organization may be considered related. On the hand Thompson and Strickland (2003), contends that related diversification involves adding business whose value chains fits with the value chain of the company's present business. It involves expansion into industries/markets whose technologies and products complement and enhance its present business. This leverages existing competencies and capabilities by expanding into where the same resources and strengths are key success factors and valuable competitive assets. Therefore what makes related diversification attractive is the opportunity to turn cross business strategic fit into competitive advantage over business rivals that have not diversified. Porter (1985), observes that competitive advantage in one industry can be greatly enhanced by the interrelationships with business units competing in related industries.

The greater the relatedness the greater the opportunity for skills transfer, and/or combining value chain activities to lower costs and/or collaborate to create new resource strengths. Rumelt at al (1994) further notes that economic rationale for diversification include economies of scope where a firm can utilize previously idle capacity to produce an additional product hence gain cost saving. Penrose (1959) further argues that successful firms have perennial tendency to generate excess capacity in human capital particularly in areas like engineering, management and research.

What makes related diversification more attractive is the opportunity to turn strategic fits into competitive advantage. Strategic fits among related business offer competitive advantage potential in lowering costs, efficient transfer of skills, technological expertise and managerial know how from one business to the other, ability to share common brand name and/or enhanced resource strengths and competitive capabilities. Some of the factors that make unrelated diversification include companies whose assets are undervalued, companies that are financially distressed and those that have bright growth prospects but are short on investment capital. These include the research and development, supply chain, manufacturing, distribution, sales and marketing. This is where we market completely new products to new customers. There are two types of diversification, namely related and unrelated diversification. Related diversification means that we remain in a market or industry with which we are familiar. For example, a soft drink manufacturer diversifies into mineral water and juices manufacture (i.e. the food industry). Unrelated diversification is where we have no previous industry nor market experience. For example a soft drink manufacturer invests in the banking business or oil industry.

According to Thompson and Strickland (1998), crafting a corporate strategy for diversified company comprises of making the moves to enter new business. The first concern is to decide the business to enter and whether to enter by starting a new business from the ground or by acquiring an already existing enterprise. The company must also initiate actions to boost the combined performance the firm has diversified into in order to strengthen corporate competitiveness. Thirdly the finding ways to capture the synergy among related business units and establishing investment priorities and steering corporate resources into the most attractive business units.

According to Thompson and Strickland (2003) approaches to diversification may include entering business where sales force, advertising, brand name, and distribution facilities can be shared, (a maker of cookies and crackers diversifying into salty snack foods). Exploring closely related technologies and technical expertise (a creator of software for mainframes diversifying into software for networking of PCS) transferring know-how and expertise from one business to another (operator of Italian food restaurant acquiring a Chinese food restaurant. Transferring organizational brand name and reputation with consumers to a new product/service (a tyres manufacturer acquiring a chain of car care centers specializing in brake repairs). Acquiring new business that will uniquely help the firm position in its existing business.

2.5 Porter's Generic Strategies

If the primary determinant of a firm's profitability is the attractiveness of the industry in which it operates, an important secondary determinant is its position within that industry. Even though an industry may have below-average profitability, a firm that is optimally positioned can generate superior returns.

A firm positions itself by leveraging its strengths. Michael Porter has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: *cost leadership*, *differentiation*, and *focus*. These strategies are applied at the business unit level. They are called generic stratcgics because they are not firm or industry dependent. The following figure illustrates Porter's generic strategies:

Figure 2; Porter's Generic Strategies; Source Porter M E 1980

Target Scope	***Advantage***	
	Low Cost	**Product Uniqueness**
Broad (Industry Wide)	**Cost Leadership Strategy**	**Differentiation Strategy**
Narrow (Market Segment)	**Focus Strategy**(low cost)	**Focus Strategy**(differentiation)

(Source Generic strategies model Porter M.E 1980)

2.5.1 Cost Leadership Strategy

This generic strategy calls for being the low cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market.

An emphasis on competitive methods that results in a cost leadership strategic position appears to be the primary basis for achieving superior performance in the banking industry. This conclusion supports one route to the development of a strategic position in service industries (Miller 1992).

Low cost leadership is based on lower overall costs than competitors are. Firms that achieve low cost leadership generally make low cost relative to competitors the theme of their business strategy. The firm opens up a sustainable cost advantage over competitors and uses that lower cost as a basis for either under pricing the competitors and gaining a larger market share at their expense or earning a higher profit margin by selling at the going price.

A low cost leader's basis for competitive advantage is lower overall costs than competitors. This requires the firm to be better than its rivals on efficiency, cost control, and continuously seek creative and innovative ways of cutting costs. Successful low cost producers achieve cost advantages by exhaustively pursuing cost savings throughout the activity cost chain.

A cost leadership strategy is designed to produce goods or services more cheaply than competitors do by stressing efficient scale of operation. When a firm designs, produces, and sells a comparable product more efficiently than its competitors as well as its market scope is industry-wide, it means that the firm is carrying out the cost leadership strategy successfully (Mols, 2000).

Firms often drive their cost lower through investments in efficient-scale facilities, tight cost and overhead control, and cost minimizations in such areas as service, selling and advertising (Porter, 1980). They often sell no-frills, standardized products to the most typical customers in the industry. Thus, the primary thing for a firm seeking competitively valuable way by reducing cost is to concentrate on maintaining efficiency through all activities in order to effectively control every expense and find new sources of potential cost reduction (Dess and Davis, 1984).

2.5.2 Differentiation Strategy

With the differentiation strategy, the unique attributes or perceptions of uniqueness and characteristics of a firm's product other than cost provide value to customers. The firm pursuing differentiation seeks to be unique in its industry along some dimension that is valued by customers, which means investing in product R&D and marketing (Porter, 1980).

It is the ability to sell its differentiated product at a price that exceeds what was spent to create it that allows the firm to outperform its rivals and earn above-average returns. A product can be differentiated in various ways. Unusual features, responsive customer service, rapid product innovations and technological leadership, perceived prestige and status, different tastes, and engineering design and performance are examples of approaches to differentiation (Porter, 1980).

Rather than cost reduction, a firm using the differentiation needs to concentrate on investing in and developing such things that are distinguishable and customers will perceive. Overall, the essential success factor of differentiation in terms of strategy implementation is to develop and maintain innovativeness, creativeness, and organizational learning within a firm (Pennathur, 2001)

Successful differentiation is based on a study of buyers' needs and behavior in order to learn what they consider important and valuable. The desired features are then incorporated into the product to encourage buyer preference for the product. The basis for competitive advantage is a product whose attributes differ significantly from rivals' products.

Competitive advantage results when buyers become strongly attached to these incorporated attributes and this allows the firm to: charge a premium price for its product, benefit from more sales as more buyers choosing the product and more buyers become attached to the differentiating features resulting in greater loyalty to its brand.

Efforts to differentiate often result in higher costs. Profitable differentiation is achieved by either keeping the cost of differentiation below the price premium that the differentiating features command. or by offsetting the lower profit margins through more sales volumes. Kotler (2003) insists that anything that a firm can do to create buyer value represents a potential basis for differentiation. Once it finds a good source of buyer value, it must build the value, creating attributes into its products at an acceptable cost. These attributes may raise the product's performance or make it more economical to use. Differentiation possibilities can grow out of possibilities performed anywhere in the activity cost chain.

2.5.3 Focus Strategy

The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly (Wyckoff, 1992).

Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist, (Keeney at al 2001).

Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well.

Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better (Keeney at al 2001).

2.6 Linking the Porter's Strategies with Industry Forces

These generic strategies each have attributes that can serve to defend against competitive forces. The following table compares some characteristics of the generic strategies in the context of the Porter's five forces (Porter, 1980).

Figure 3:Generic Strategies and Industry Forces

Industry Force	*Generic Strategies*		
	Cost Leadership	**Differentiation**	**Focus**
Entry Barriers	Ability to cut price in retaliation deters potential entrants.	Customer loyalty can discourage potential entrants.	Focusing develops core competencies that can act as an entry barrier.
Buyer Power	Ability to offer lower price to powerful buyers.	Large buyers have less power to negotiate because of few close alternatives.	Large buyers have less power to negotiate because of few alternatives.
Supplier Power	Better insulated from powerful suppliers.	Better able to pass on supplier price increases to customers.	Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases.
Threat of Substitutes	Can use low price to defend against substitutes.	Customer's become attached to differentiating attributes, reducing threat of substitutes.	Specialized products & core competency protect against substitutes.
Rivalry	Better able to compete on price.	Brand loyalty to keep customers from rivals.	Rivals cannot meet differentiation-focused customer needs.

Generic strategies and Industry forces model. Porter M.E. 1980;

Figure 4: Conceptual Framework

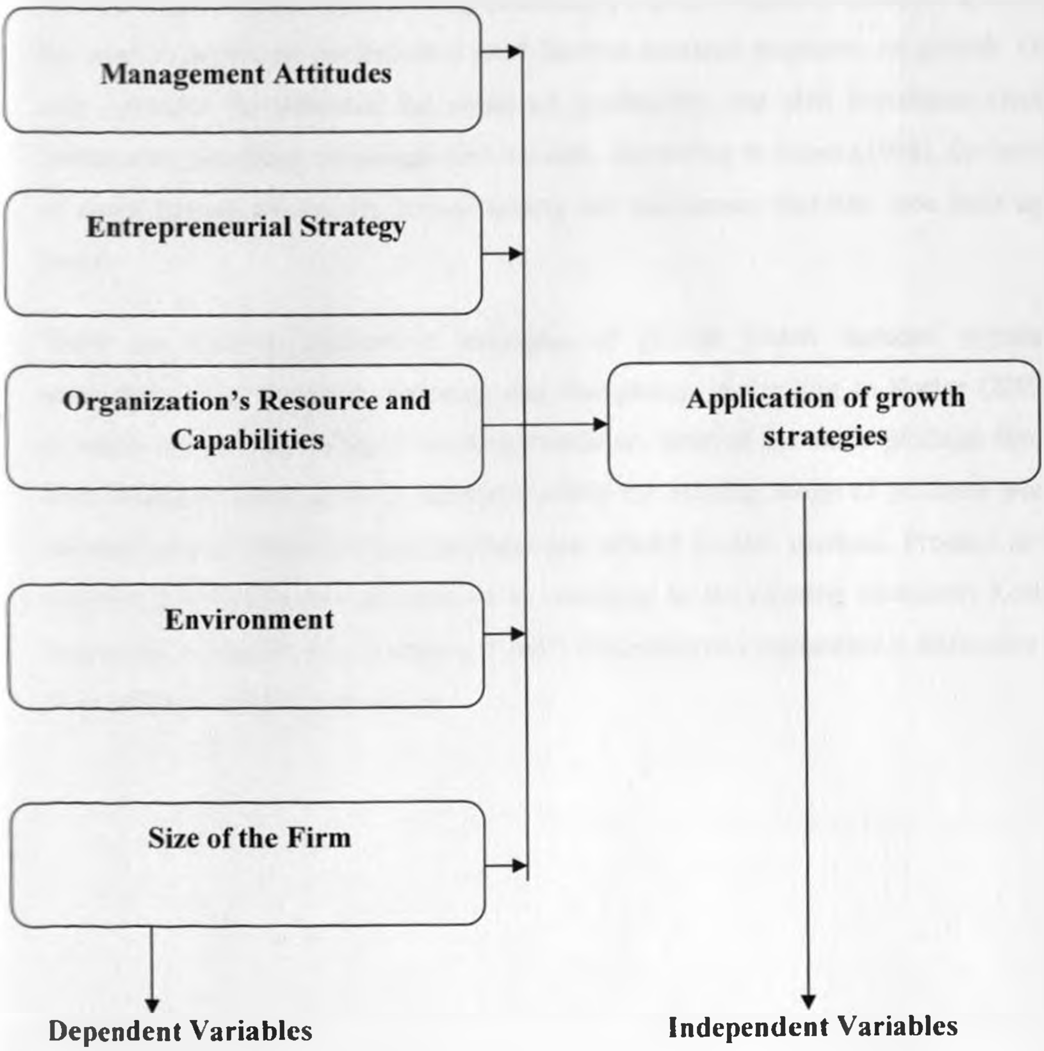


Figure 2.1: Conceptual Framework of Variable Relation

Source: Author 2009

2.8 Summary of the Literature Review

The literature review indicates that the firm's immediate external environment poses a set of challenges which include competitors for markets and profit, suppliers of increasingly scarce resources, rapidly changing technology, legal restrictions by the government and the regulators as well political climate.

As observed by Aaker (1998) many firms focus on improving results by downsizing, restructuring, redeploying assets and reducing costs. There is however a limit as to how much you can improve performance using efficiency programs. There is therefore a realization that the road to improved performance must involve renewed emphasis on growth. Growth not only provides the potential for enhanced profitability but also introduces vitality in the business by providing challenges and rewards. According to Grant (1998), the key challenge of contemporary executives is maintaining the momentum that has been built up over the years.

There are various alternatives strategies of growth which includes organic growth, acquisition, joint ventures, licensing and franchising. According to Kotler (2003), market penetration involves selling to existing customers more of the same products that you have been selling to them or other products within the existing range of products while market development is where existing products are offered in new markets. Product development involves developing new products to be marketed to the existing customers Kotler (2003). According to Pearce and Robinson (1997) diversification represents a distinctive departure from a firm's existing operations.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research was conducted using the case study research design. Previous studies on the application of the growth strategies have used surveys to derive their evidence. The advantage with the case study design is the ability to carry out a more in depth study to derive the dynamics involved in the implementation of the growth strategies.

3.2 Data collection

The research was conducted through interview of the top management of the company. An interview guide was used to obtain information from the interviewees. The unstructured interview guide is suitable because of it makes the study more interactive hence facilitate the gathering of information from the respondent. The main respondents were the Deputy Chief Executive, the Marketing Manager, Finance Manager and the Processing Manager.

3.3 Data Analysis

The main tool applied was content analysis. This was necessitated by the fact that this case study involved studying a single sector and a firm participating in that sector. Single case studies can often yield information that could not be obtained using other methods. Qualitative techniques were used in this research because they were concerned less with general statements that might be derived from the quantitative examination of large samples.

Such qualitative analysis tool have been applied in related studies in the past by Bett (1995), Thiga (1999) and Thou (2004)

Strategy	Deputy CEO	Marketing Manager	Processing Manager	Finance Manager
Ansoff growth strategies				
Market penetration; i) Does the organization use market penetration ii) Wha t approach do you use to penetrate the m arket iii) What challenges have been encountered in pursuing this strategy iv) How do you address the challenges	ARM has grown from a very humble beginning in 1974 and increased its market share consistently by applying various strategies including the market penetration strategy. The company has partnered with other producers to promote the use of cement for road construction.	The company has extensive distribution network in Kenya and Tanzania. The extensive distribution network is utilized to reach more customers in the market. We have been growing our market consistently at a rate of about 5% every year. We have pursued very close partnerships with our distributors and have also assisted them to improve their internal systems and efficiencies. The benefits arising from our low cost structure are shared with our distributors to improve their margins.	With the growth in the economy there has been increased use of cement for residential and commercial construction as well as infrastructure development such as airport facilities, port expansion and water and electricity supply. With the increase in Clinker capacity we expect to we are able to increase our cement production capacity and sell to a bigger market.	Currently we have a market share of about 4% of the cement market. Our aim is grow this to about 10% through various market penetration strategies. With the new plant commissioned in September 2009 we expect to be increase cement production to reach a wider market.
Market development strategy: i) Does the organization use market development ii) Wha t approach do you use to develop the market iii) what challenges have been encountered in pursuing this strategy iv) How do you address the challenges	ARM has been exploring and developing new geographical markets as apart its expansion strategy. The Company started operations in Kenya then expanded to the	ARM has achieved international quality and cost benchmarks. This has helped the firm in expanding its current markets because the	Apart from Kenya Tanzania and South Africa our products we have been reaching new markets especially in the Comesa region such as	The key challenges encountered in selling to foreign markets has been mainly different legal and regulatory environment, foreign

Strategy	Deputy CEO	Marketing Manager	Processing Manager	Finance Manager
	Tanzania and recently to South Africa. The products are sold in both the East Africa and the larger COMESA regional blocks.	products are easier to sell in the new markets because they meet the export market standards. Exports accounts for 35% of total sales.	Uganda, Rwanda, Democratic republic of Conga and Sudan	exchange risk as well as logistic of ensuring that the products are delivered to the market. To hedge against foreign exchange fluctuations we have adopted a cost plans pricing method which also include any foreign exchange fluctuation
Product Development strategy i) Does the organization use product development ii) Wha t approach to product development does your organization apply iii) What challenges have been encountered in pursuing product development strategy iv) How do you address the challenges	Cement is the flagship product of the company contributing about 46% of total revenue in 2005. This has however been progressed reduced to 37% in 2006 and 34% in 2007 as a result of development of other products. Apart from cement the company has expanded its product range to include other mineral related products like sodium silicate, lime, fertilizer. The company is also involved in the production of industrial minerals for use in the agricultural and paint manufacturing industries.	The company has been investing heavily in research and development in order to develop new products. Throughout the past decade we have produced many products based around the minerals that we mine	We are an innovative natural resource based mining and processing company manufacturing over 15 value added products apart from cement which is our flagship product	Cement contributes 46% of the company's revenue while the other products contribute as follows sodium silicate 28%, industrial minerals 11% lime 10%and fertilizer 5%.

Strategy	Deputy CEO	Marketing Manager	Processing Manager	Finance Manager
Diversification strategy i) Has your organization been engaged in carrying out other business that is related to the current business ii) H as the organization been engaged in other business that is unrelated to the current industry, technology and channels of distribution	ARM is a diversified business with 5 divisions; Apart from the Athi River and Kaloleni factories, the company has opened other divisions in Tanzania and South Africa and is planning to open another one in Zambia.	Although we have been diversifying this is mainly related to mineral extraction and processing.		The company gets involved in the corporate social responsibility; these are activities that involves giving back to the community. It includes environmental conservation projects, promotion basic education in the community and helping the hunger stricken places in the countries they operate in.
Generic strategies				
Cost leadership strategy	The Company has over the years acquired expertise to build its own plant at lower than industry benchmark costs without impacting negatively on quality. Plants constructed by the company are highly automated requiring less staff to run	The company's low cost structure enables the firm to pass the benefits to its distributors and customers. The distributors and stockists enjoy better margins while the customers also enjoys a competitive pricing without	The company's key competitive advantage lies in investing in cutting edge technology enabling it to remain a low cost producer. With the new plant commissioned in September 2007. we expect to be one of the lowest cost cement	To maintain the low cost structure, the company strives to obtain funding from the local capital markets mainly through issuance of corporate bonds and right issue. We ensure that we only undertake projects that would

Strategy	Deputy CEO	Marketing Manager	Processing Manager	Finance Manager
	them. The company promotes an entrepreneurial management culture with strong management and operational teams that focuses on creating value in the organization.	compromising on quality	producers in the region enabling the company to increase volumes in both the domestic and foreign markets. To access our markets in a cheaper and cost effective way we use the sea based form of transport to reach our markets. Most of production is also energy intensive and hence this increase our cost of production.	improve the overall yield on equity. The company uses a formula based on cost-plus pricing method to lock in margins. The profit margins for products are the same both locally and for export markets. The pricing adjusts for any currency fluctuations thus securing the margins. The cost of energy has however been a major hindrance and the company with other stakeholders are exploring cheaper and more reliable alternative sources of energy.
Differentiation				
Focus strategy				
Other strategies	**Access to Raw Materials** The company has significant reserves The company has			

Strategy	Deputy CEO	Marketing Manager	Processing Manager	Finance Manager
	cement quarry estimated over 40 years while that of other minerals is estimated at over 200 years.			

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CHAPTER FOUR: DATA FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter discusses the data findings, analysis and interpretation. The main objective of the research was to investigate the growth strategies at Athi River Mining Limited where the case study research design was used. The research was conducted through interview of the Deputy Chief Executive Officer, Head of Finance, Marketing Manager and the Production Director. The interview guide was used to obtain information from the interviewees. The unstructured interview guide is suitable because of it makes the study more interactive hence facilitate the gathering of information from the respondent. The target respondents were the Chief Executive, the Head of marketing and any one of the other Heads of departments involved in strategic and policy issues in the Company. Data collected from the study was qualitative in nature and therefore analyzed through the qualitative analysis.

The section is divided into seven sections including the organization profile of the interviewees company; marketing penetration strategy; market development; product development strategy as well as diversification strategy. Others are the generic strategies and general questions.

4.2 The Organization Profile

Athi River Mining Limited was established in 1974, as a mineral extraction and processing company. It has since grown into a regional company with its core strength in the manufacturing and extraction and processing of mineral raw materials and cement. The company grew from a family owned business to a publicly quoted company in the Nairobi Stock Exchange through an initial public offering in August 1997. The company has undergone phenomenon growth over last ten years with a turnover increasing from Kshs 518m in 1997 to Kshs 3.8billion in 2007 while market capitalization grew from Kshs 900million to Kshs 9billion over the same period. Total assets within this period grew from Kshs 1 billion to Kshs 5 billion. The company recently announced plans to double its cement production capacity at a cost of KES 1 billion. Projecting that cement demand in East Africa will increase from the current 5.5 million tonnes a year to 11 million tonnes in 2012, ARM said it would raise capacity from the current 300,000 tonnes to 600,000 tonnes per year by 2010.

4.3 Market penetration Strategy

Market penetration focuses on increasing market share of the firm by increasing the use of existing products in the present markets. This can be done by encouraging existing customers to buy more products frequently through advertising, giving price incentives for increased usage, persuading competitors' customers to switch to your products through advertising and promotion. The other approach to market penetration involves identifying and promoting alternative uses of the same products within the existing markets.

According to the findings, all interviewees unanimously agreed that, their organization uses market penetration strategy. Depth of sales of a particular product in a given market; the deeper the penetration, the higher the volume of product sales. In order to expand the sales of current products in markets where their products are already being sold, marketers utilize market penetration strategies such as cutting prices, increasing advertising, obtaining better store or shelf positions for their products, or innovative distribution tactics. The company has developed very strong partnerships with its distributors to ensure that its products achieve a large market share. This is done through offering better terms and margins than the competition in view of its lower cost structure arising from investment in efficiency programmes.

Athi River Mining has also partnered with other players in cement manufacturing and construction sector under the auspices of the East African Cement Producers Association to promote the alternative use of cement for Road Construction.

However, majority of the interviewees agreed that there are many challenges facing strategy implementation for market penetration. These include inadequacy plant and clinker capacity at the company's Kaloleni and Athi River plants and high energy costs. ARM is planning to invest an additional Kshs 1 billon in the current year to expand capacity from the current 200,000 metric tonnes to 300,000 metric tonnes. The company is able to finance its expansion strategies from internal sources through retained earnings as well as through debt raised through the capital markets.

4.4 Market Development

Market development is a strategy involving marketing present products (sometimes with cosmetic changes) to new market segments/areas. This can be done by:

a) Increasing the channels of distribution to reach other market areas or segments.

b) Opening additional geographical markets locally, regionally or internationally.

c) Advertising in alternative media to reach other segments.

The interviewees highlighted the company's humble beginning as a mineral extraction company with its factory in Athi River serving just a small market within the Eastern and Nairobi provinces. The company has pursued the market development strategy to expand both locally and regionally. Locally the company has two plants one in Athi River and the other one Kaloleni in the Coast province which is a major source of the raw materials. The company has also grown regionally mainly by establishing subsidiaries in the East African and the larger Common Market for Eastern and Southern Africa (COMESA) regions.

There are several challenges that are encountered in pursuing market development strategy; this includes high costs of advertising the products mostly with the print media. There is also a limitation in the area of coverage.

The interviewees reckon that regional expansion presents unique challenges in form of legal and regulatory which exists in different countries. There are also other country specific trade barriers like local component requirements, ownership structure and product standards. Operating in different jurisdictions also exposes the company to foreign exchange risks. Athi River Mining has dealt with these challenges through incorporation of local subsidiaries with some local ownership in the country of operations as well compliance with other legal and regulatory requirements. For instance the ARM subsidiary in Tanzania is 72% owned by the ARM in Kenya while the remainder is owned by local distributors. The Head of Finance noted that the foreign exchange risk is addressed through a costs plus pricing which also takes into account the foreign exchange fluctuations.

Other challenges include the heavy investment outlay required to establish production, distribution and marketing capacity in a foreign country. The company has had to invest substantially in sales, promotions and advertising in order to make its products create awareness and demand for its products in these countries. ARM has also adopted a strategy of raising finance from the specific country of operation thereby overcoming the foreign exchange risks and also increasing the level of 'ownership' from the locals.

4.5 Product Development Strategy

Product development involves substantial modification of existing products or the creation of new but related products to be marketed to the existing customers through the existing channels. This is done through

a) Developing new products features to adapt to different areas or uses; modifying the form; magnify the size, strength or value of the product.

b) Developing products of different qualities to suit various customers segments.

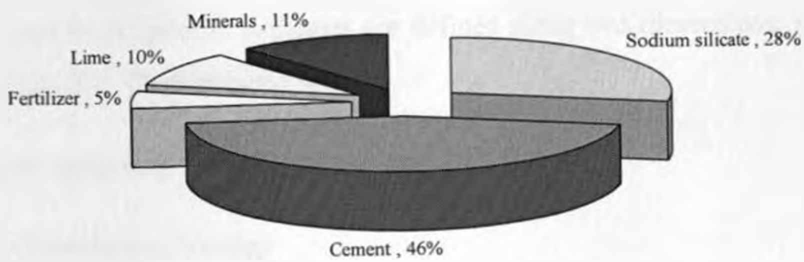
c) Developing new products for other uses.

Cement is the flagship product for Athi River Mining contributing about 46% of the revenues in 2007. The study highlighted that apart from cement, the ARM also produces fourteen other related products designed to serve different purposes for various market segments. These include; cement, quick and hydrated lime, quartz, limestone and gypsum for the construction and infrastructure sector as well lime for gold water and sugar treatment. The respondents indicated that product development strategy has presented various challenges including; high research and development and marketing costs since the modified product appears as a new product to the already existing market hence there is need to provide enough information about the product. High production cost due developing products of different qualities to suit various customer's segments or developing new products for other uses. The marketing manager also noted that the company has dedicated sufficient resources for enhancement of brand awareness and distribution network.

The company is able to address the challenges by preparing a flexible budget which helps them to cater for any extra expense in marketing, advertisement or in production. The use of the already existing channels also helps the company cut down on expenses of venturing into new markets.

To keep pace with changing customer needs the study highlighted that ARM has been investing heavily in research and development in collaboration with other institutions in the respective industries such as agriculture. The chart below shows revenue contribution of various products

Figure 5: Revenue contribution by products



Source; *Company's annual report 2007*

4.6 Diversification Strategy

Diversification represents a distinctive departure from the existing operations; typically the internal generation or acquisition of a separate business that are related to the existing business in terms of technology, market or products. It may also be unrelated diversification where an organization moves beyond its current value system, industry and current technology and competencies.

According to the interviewees the company has pursued related diversification through the production of fertilizers and industrial minerals. The company has separate divisions that are dedicated for the production of fertilizers and industrial minerals. ARM's strategy for the fertilizer is to focus on large scale farmers and institutional buyers.

At the same note the company gets involved in the corporate social responsibility, these are activities that involves giving back to the community. It includes environmental conservation projects, promotion basic education in the community and helping the hunger stricken places in the countries they operate in.

4.7 Generic Strategies

These are strategies developed by Michael Porter consisting of three general types of strategies that are commonly used by businesses to achieve and maintain competitive advantage. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. The strategies include

a) Cost leadership strategy

b) Differentiation Strategy

c) Focus Strategy

The generic strategies are applied by the company using different approaches as shown below.

Cost Leadership Strategy

This generic strategy calls for being the low cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market. Some of the ways that the firm acquires cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership.

According to the processing Manager the company's key competitive advantage lies in investing in cutting edge technology enabling it to remain a low cost producer. With the investment in a new plant in 2007 the company is one of the lowest cost cement producers in the region enabling it to increase volumes in both the domestic and foreign markets. The company also uses the cheaper and cost effective sea based mode of transport to access its markets.

According to the Finance Manager, ARM has adopted a competitive cost structure by investing in state of the art plant technology to achieve international costs and quality benchmarks. He reckons that the company promotes an entrepreneurial management culture with strong management and operational teams that focuses on creating value in the organization.

In order to successfully implement the cost leadership strategy ARM also recognizes the importance of its suppliers and consider them as partners in progress. The company therefore promotes efficiency in its entire supply chain by setting standards and creating awareness for its suppliers to adopt international benchmarks. As a result of this ARM has consistently improved its margin over the years. The Finance Manager noted that the company has encountered enormous challenge in pursuit of this strategy mainly due to the high cost of energy which is a major input for the running of its production plants and high cost of transportation and logistics cost due the poor roads and infrastructure. To address the issue of energy costs the company together with the other players in the market have petitioned the government to invest in the power sector in order to lower the costs. The company also has plans to partner with a utility company to construct a coal powered station dedicated to its Kaloleni plant while any surplus will be sold to national grid.

Differentiation Strategy

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. The respondents were unanimous that because of the nature of its products, it would not be in ARM's interest to use a differentiation strategy and hence the company has not pursued it.

Focus Strategy

The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly.

Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist. The respondent were unanimous that ARM has not pursued a focus strategy due to the nature of its business which is characterized by low margins and high volumes and hence the need to sell to the mass market.

4.8.1 General Questions

On whether the company uses existing facility to manufacture new products, existing channels to market new products to existing customers or operate outlet channels to distribute current products

The company uses the existing facility to manufacture new products. This assists the company to make greater production at a reduced rate since the old facilities are used other than new equipments. It also uses the existing channels to market new products to the existing customers. From the interviews carried out the Athi River Mining Company has exploited this option hence it has an advantage of the already existing channels

The research showed that the organizational approach adopted in carrying out unrelated business are mainly;

a. Opening new business in a different industry

b. Use existing resources to produce new goods

This was explained by the fact that the company has a ready market and hence the biggest challenge would be creating awareness of the new product. While using the existing resources to produce new goods helps reduce on expenses.

Installing new production line for new products targeting new markets, proved to be very expensive hence not applicable. While acquiring a license to market new products to new markets, took along period to be implemented.

The company has significant reserves The company has cement quarry estimated over 40 years while that of other minerals is estimated at over 200 years.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Research Summary

Athi River Mining Limited was established in 1974, as a mineral extraction and processing company. It has since grown into a regional company with its core strength in the manufacturing and extraction and processing of mineral raw materials and cement. The company grew from a family owned business to a publicly quoted company in the Nairobi Stock Exchange through an initial public offering in August 1997. The company has undergone phenomenon growth over last ten years with a turnover increasing from Kshs 518m in 1997 to Kshs 3.8billion in 2007 while market capitalization grew from Kshs 900million to Kshs 9billion in 2007.

According to the findings of this study, all interviewees were unanimous that, their organization uses market penetration, market development, product development and diversification strategy. It was also clear that ARM has positioned itself as a low cost producer with a view to increasing their profit margins and also passing on some of the benefits of this strategy to their stakeholders like the distributors, staff and community through corporate social responsibility initiatives.

Depth of sales of a particular product in a given market The deeper the penetration, the higher the volume of product sales In order to expand the sales of current products in markets where their products are already being sold, marketers utilize market penetration strategies such as cutting prices, increasing advertising, obtaining better store or shelf locations for their products, or innovative distribution tactics. Market penetration can also be pursued though identifying and promoting alternative use of existing products in the current markets with minimal modification. It was also clear from this that this strategy may be limited if the firms production capacity is not sufficient due to low materials constraints.

There are several challenges that are encountered in pursuing market development strategy; this includes high costs of transporting the products and/or raw materials to the new markets and the costs of advertising the products in both electronic and print media. There is also a limitation in the area of coverage. The interviewees noted that opening additional geographical markets locally or internationally has many challenges due to the different legal and regulatory requirements in various jurisdictions. It is also clear that these challenges may be addressed through location of factories in the areas of operations and incorporation of subsidiaries companies with limited local ownership in the country of operation. Outsourcing of the distribution networks and development of close partnership is key in managing efficient and effective distribution network.

Based on the outcome of the study, it was clear that product development strategy has been successfully applied by Athi River Mining. It is also evident that for a firm to pursue this strategy it should have adequate resources for investment in research and development, creating production capacity as well as marketing of the new products to the existing and new markets. Access to the capital markets is therefore essential for firm to be able to mobilize resources for these undertakings.

The company also uses the strategies developed by Michael Porter consisting of three general types of strategies that are commonly used by businesses to achieve and maintain competitive advantage. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. The strategies include

5.2 Conclusion

The study concludes that just like Athi River Mining other firms may use the Ansoff growth strategies or the Porter's generic strategies. The firm can also use a combination of the Ansoff growth strategies and the Porters generic strategies. The combination of the two sets of strategies was shown as beneficial as the strategies complement each other. Application of any growth strategies presents various challenges to the firm. A firm wishing to pursue growth must therefore put in place sufficient resources to be able to counter these challenges. Market development across national borders has unique challenges due to the need for the firm to comply with laws and regulation in various countries. Apart from the different legal frameworks in different countries, there are also varied social cultural settings which must be surmounted for the firm to effectively develop a new market for its products. In order to sustain an effect market penetration to sustain There are many reasons for pursuing a diversification strategy, but most pertain to management's desire for the organization to grow. Companies must decide whether they want to diversify by going into related or unrelated businesses. They must then decide whether they want to expand by developing the new business or by buying an ongoing business. Finally, management must decide at what stage in the production process they wish to diversify. Also Ideas for new products can be obtained from basic research using a SWOT analysis (Strengths, Weaknesses, Opportunities & Threats), Market and consumer trends, company's R&D department, competitors, focus groups, employees, salespeople, corporate spies, trade shows, or Ethnographic discovery methods (searching for user patterns and habits) may also be used to get an insight into new product lines or product features. Idea Generation or Brainstorming of new product, service, or store concepts

This was explained by the fact that the company has a ready market and hence the biggest challenge would be creating awareness of the new product. While using the existing resources to produce new goods helps reduce on expenses. Installing new production line for new products targeting new markets, proved to be very expensive hence not applicable. While acquiring a license to market new products to new markets, took along period to be implemented.

5.3 Recommendations

Successfully implementing growth strategies is not easy for any organization and effective steps have to be put in place to ensure successful implementation. Management of the company needs to have the required knowledge, expertise and skills before they can agree and embark upon an implementation programme. In addition, the management needs to learn from others as to what has worked in other firms and what has not. In essence a number of actions need to be taken in order to increase the likelihood of success. These include; setting up a steering committee, identifying the norms, values and behaviors for the organization's people, agreeing a plan of action, implementing that plan and reviewing progress. Furthermore, the plan of action needs to be sensitive and in line with the organization's history and future. Therefore each organization will need to identify its own unique approach, as "off the shelf" packages are not readily associated with success.

However, by far the most important element of that plan is that leaders "walk the talk", get involved in the process and never let their enthusiasm wane. Achieving successful strategic plan takes time, energy and resources from everyone within the organization, an endeavor that is totally worthwhile given the positive impact of strategic planning.

The study also recommends that managers be on the look for any possible factor that has an implication on the operations of the business and respond appropriately.

The researchers also recommend that the responsible government personalities be on the look out to control the unhealthy competition. This will assist the up coming and the existing companies from exploitation.

5.4 Suggestion for Further Studies

The study wishes to recommend further research of the critical success factors for the implementation of growth strategies. This is because the research came across various other challenges and factors affecting growth of Athi River Mining Company in the course of study

Further studies should be done on the growth strategies in other companies and industries, this will help any business realize good profits while helping it be in a position to either plough back the profits or strategize on diversification

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APPENDICES

Appendix I: Questionnaire / Interview Guide

Name of the respondent (Optional)..

Designation..

Name of the organization..

Address...

THE ORGANISATION PROFILE

1. Which year was the organization established? ....
2. What business was the organization established to undertake?

....

3. a) Is the firm privately or publicly owned?

....

b) What is the shareholding structure like? (Optional)

....

4. What is the current size of the business in terms of turnover and staff numbers?

....

PART B - Market penetration Strategy

5. Market penetration focuses on increasing market share of the firm by increasing the use of existing products in the present markets. This can be done by encouraging existing customers to buy more products frequently through advertising, giving price incentives for increased usage, persuading competitors' customers to switch to your products through advertising and promotion.

i) Does your organization use the market penetration strategy?

....

....

ii)What approaches do you use to penetrate the market?

....

....

....

iii) What challenges do you encounter in pursuing this strategy?

....

....

....

....

iv) How do you address such strategies?

....

....

....

....

PART C: MARKET DEVELOPMENT

6. Market development is a strategy involving marketing present products (sometimes with cosmetic changes) to new market segments/areas. This can be done by:

d) Increasing the channels of distribution to reach other market areas or segments.

e) Opening additional geographical markets locally, regionally or internationally.

f) Advertising in alternative media to reach other segments.

i) Does your organization use the market development growth strategy?

....

....

....

ii) Which approach to market development does your organization apply?

....

....

....

....

iii) What challenges are encountered in pursuing market development?

....

....

....

iv) How do you address these challenges?

....

....

....

PART D: PRODUCT DEVELOPMENT STRATEGY

7. Product development involves substantial modification of existing products or the creation of new but related products to be marketed to the existing customers through the existing channels. This is done through

d) Developing new products features to adapt to different areas or uses; modifying the form; magnify the size, strength or value of the product.

e) Developing products of different qualities to suit various customers segments.

f) Developing new products for other uses.

i) Does your organization use the Product development growth strategy?

....

....

....

ii) Which approach to product development does your organization apply?

....

....

....

....

iii) What challenges are encountered in pursuing product development?

....

....

....

....

iv) How do you address these challenges?

....

....

....

PART E DIVERSIFICATION STRATEGY

8. Diversification represents a distinctive departure from the existing operations; typically the internal generation or acquisition of a separate business that are related to the existing business in terms of technology, market or products. It may also be unrelated diversification where an organization moves beyond its current value system, industry and current technology and competencies.

   i) Has your organization engaged in carrying out other businesses related to the current business?

....

....

....

....

   ii) Engaged in other businesses unrelated to the current industry, technology, channels of distribution.

....

....

....

....

PART F: GENERIC STRATEGIES

9. These are strategies developed by Michael Porter consisting of three general types of strategies that are commonly used by businesses to achieve and maintain competitive advantage. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. The strategies include

   d) Cost leadership strategy

   e) Differentiation Strategy

f) Focus Strategy

i. Has your organization applied any of the three generic strategies to achieve the desired growth?

....

....

ii. What approach does your organization use to apply each of the generic strategy?

a) Cost leadership strategy

....

....

b) Differentiation Strategy

....

....

c) Focus Strategy

....

....

iii. What challenges do you get when applying each of the generic strategies?

d) Cost leadership strategy

....

....

e) Differentiation Strategy

....

....

f) Focus Strategy

....

....

iv. What approaches do you use to reduce these challenges?

....

....

....

....

....

PART G: GENERAL QUESTIONS

10. What approach has your organization used in engaging in business that is related to current business (using existing facility to manufacture new products, using existing channels to market new products to existing customers, operate outlet channels to distribute current products

....

....

....

....

12. what approach has your organizational adopted in carrying out unrelated business

a. Open new business in a different industry?

....

....

....

b. Use existing resources to produce new goods?

....

....

....

c. Installed new production line for new products targeting new markets?

....

....

....

....

d. Acquire a license to market new products to new markets?

....

....

....

....

Appendix 2

Mr. Joseph N. Njuguna,

School of Business,
University of Nairobi,
P.O. Box 30197,
Nairobi.

11th August, 2009

Mr. Mbatia
Deputy C.E.O.
Athi River Mining Company Ltd,
P. O. Box 75104 – 00200,
Nairobi.

Thru

Dear Sirs,

RE: REQUEST FOR DATA AND USE OF COMPANY INFORMATION

I am a module II MBA student (Evening programme). I am carrying out a Management Research Project as a requirement in partial fulfillment of the award of the degree of masters in Business Administration of the University of Nairobi; School of Business. My area of specialization is Strategic Management and the chosen area of study is; ***"Application of growth strategies by Athi River Mining Ltd".***

In order to ensure that my study is complete, I am required to seek information from the Company. I am therefore requesting for permission to use your company's information to be collected through the interview guide attached. The information gathered will be treated as confidential and will be used for academic purposes only. A copy of completed project will be availed to your company.

Thank you for your kind assistance.

Yours faithfully,

Joseph Njuguna