RESPONSES BY KENYAN CONSTRUCTION FIRMS FACING CHANGING ENVIRONMENT CONDITIONS

BY

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DECLARATION

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

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DEDICATION

This project is dedicated to my lovely wife Nyambura and children Mwangi, Kahora and Muthoni for enabling me to complete the programme through their encouragement, patience and sacrifice.

May God bless you all.

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ABSTRACT

There are many changes that have rapidly taken place in the environment that business organizations are operating in Kenya. In the last ten years the GDP growth rate has fluctuated from 5.8 percent in 2005 to negative 0.3 per cent in 2000. All business firms are open system and therefore dependent on their environment for survival. It therefore becomes mandatory for organizations to prepare themselves by formulating strategies that will enable them to exploit opportunities in the environment, and eliminate or minimize the threats that affect their performance.

The construction industry in Kenya has not been spared by this rapidly changing and complex business environment. The industry is highly responsive to changes in the external environment. In 2002, the value of building plans approved in Nairobi City was Kshs. 4.3 billion. In 2005, this figure had increased by more than 5 times to Kshs. 23.8 billion.

The main purpose of the study was to establish how construction companies in Kenya have responded to changes in the environment within which they operated. The changes that have taken place in Kenya are mainly political, economic, socio-cultural, technological, legal and industry environment. The target population was 700 registered general building construction companies based in Nairobi, from which a sample of 60 companies was randomly drawn.

The main findings emanating from the study were that economic challenges were of most influence to the construction industry (mean of 4.0). Political challenges were also ranked highly (mean of 3.2) in terms of their influence on the sector while information technology (IT) was reported to have the lowest influence on the construction firms.

It was also found that majority of the construction companies (72.1%) had initiated some kind of response to the environmental changes experienced. The responses instituted by the construction firms were diversification (62.8%), restructuring (44.2%) and enhanced marketing (23.3%).

The study recommended that construction companies recruit top managers charged with the responsibility of strategic management. The strategy managers would continuously scan the environment to identify threats and opportunities. The managers then need to craft the strategies that will ensure that a fit exists with the environment.

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1.1 Background

1.1.1 The Organisation and Environment Interface

All business firms are open systems. They affect and are affected by external conditions that are largely beyond their control (Pearce and Robinson, 1997). Therefore, to successfully position a firm in competitive situations, its strategic managers must look beyond its operations. They must consider what relevant others e.g. competitors, customers, suppliers, creditors, government and labour are likely to do. Strickland (1998) states that managers have ever-present responsibility for detecting when new developments require strategic response and when they don't. It is their job to track progress, spot problems early, and monitor the winds of market and customer change and initiative adjustments.

Johnson and Scholes (2002) state that the environment encapsulates many different influences and the difficulty is making sense of this diversity. He further states that the pace of technological change and the speed of global communication mean more and faster change now than ever before. A firm as an open system must interact with the environment to survive. It both consumes resources, which it transforms into outputs, and then exports the outputs to the environment. Daft (1986) notes that open systems can be enormously complex in that internal efficiency is just one issue and is sometimes a minor issue. The organization has to find and obtain needed resources, interpret and act on the environment changes, dispose of outputs, control and co-ordinate internal activities in the face of environmental disturbances and uncertainty if it is to be effective.

The environment is rapidly changing making it imperative for organisations to continually adapt their activities in order to succeed. To survive in a dynamic environment their strategies need to focus on their customers and deal with emerging environmental challenges. This is necessary because they are environment serving (Ansoff, 1987). According to Pearce and Robinson (1997) strategic response is the set of decisions and actions that results in the formulation and implementation of plans designed to achieve a firm's objectives. It is thus a reaction to what is happening in the environment of the organization. When firms are faced with unfamiliar changes they should revise their strategies to match the turbulence level (Ansoff and Mc Donnel, 1990). Failure to effectively adapt the organization to its environment leads to a strategic problem. The organization's external environment consists of all the conditions and forces that affect its strategic options and defines its competitive situation (Pearce and Robinson, 1997)

1.1.2 The Construction Industry in Kenya

Development of infrastructure is an important prerequisite in creating and supporting business environment that facilitates private sector investment, growth and job creation (GOK, 2006). An efficient infrastructure network in both urban and rural areas has been identified as a priority towards achievement of Investment Programme for Economic Recovery Strategy (IP-ERS) and Millennium Development Goals (MDGs). The construction industry is charged with the responsibility of implementing infrastructure projects hence plays a leading role in the process of national development.

The fundamental changes that have taken place in the Kenyan business environment include political, economical, technological, environmental and social. The major political events that have taken place recently include the fall of Kenya African National Union (KANU) government after 40 year rule, formation of a government in Somalia in 2005, formation of a government in Southern Sudan in 2005 and the revival of the East African Community.

There is a fundamental shift occurring in the world economy. We are moving progressively further away from a world in which national economies were relatively isolated from each other by trade barriers, distance, culture and business systems to a world in which economies are merging into an independent global economic system resulting in increased competition. In the last few years the economy has experienced low interest rates and increased budgetary allocations by the government for infrastructure development.

The construction Industry is highly responsive to changes in the external environment. In 2002 the value of building plans approved in Nairobi City was Ksh 4.3 billion. In 2005 this figure had increased by more than five times to Ksh.23.8 billion. The Economy has been on a recovery path since 2002 with construction sustaining a momentum of about 4%. Since Independence the GDP growth rate has fluctuated from 8.2 percent during the coffee boom in 1977 to negative 0.3 per cent in 2000. This poses a big challenge to the management of construction companies as the strategies required in the above two scenarios are completely different. In 1977 there was need to adopt growth strategies whereas in 2000 survival strategies would have been applied. Real GDP grew by 5.8 per cent in 2005 against a revised growth of 4.9 percent in 2004. The country is estimated to attain a GDP growth of 6 per cent in 2006 which if achieved ,would be the strongest expansion since the coffee boom in the 1970s(GOK, 2006). This will be a time of great opportunities in the construction industry but only for firms that will have crafted the right strategies.

There has been rapid technological change in the last few years demanding a change in the way construction is done. Modern equipments have enabled work to be done faster and with fewer technicians. These changes have been realised in communication, transportation, computerized batching and building materials. Contractors can now pre-cast complete floor slabs and walls in their workshops and assemble them on site thus reducing project completion periods. E-mails for sending tender documents continue to demand that contractors install computers in their premises. The advent of mobile phone technology has seen the demise of radio calls in construction sites.

The government of Kenya (GOK) in 2003 imposed a ban on logging in an effort to preserve the forests which were threatened with extinction. Contractors are forced to use imported timber from neighbouring countries making project implementation very expensive. The AIDS scourge has been identified as a major challenge in the construction industry. Construction firms do employ large labour force to implement projects. The disease has claimed the lives of some of the most skilled artisans, technicians and project managers. This has adversely affected the implementation of projects.

By 1st November 2005 there were 1,346 registered contractors with the Ministry of Roads and Public Works and over 5,000 contractors who are not registered with the Ministry. An important characteristic of the construction industry is that the government is the major client. Most Governments outline policies that provide for physical infrastructure and housing in their economic development plans. Substantial amounts of money are usually allocated to construction of these facilities. In view of the key role played by the construction industry in the economy, it is important to employ good management skills at all levels of participation so that higher performance levels are achieved to the benefit of both the industry players and the economy as a whole.

1.2 Statement of the problem

All business firm's are open systems and therefore dependent on their environment. They depend on the external environment for their survival. They have to understand requirements of the environment and adapt to them. Failure to do this will give rise to a serious strategic problem characterized by the maladjustment of the organizations output and the demand of the external environment (Ansoff, 1984).

There are many changes that have rapidly taken place in the environment that business organizations are operating in Kenya. These changes have created opportunities and also posed challenges and threats to these business organizations. In the last ten years the GDP growth rate has fluctuated from 5.8 percent in 2005 to negative 0.3 per cent in 2000. Construction firms are also operating in this rapidly changing and complex business environment. These changes pose a big challenge to the management of construction companies. One expects that these companies have responded to the changes in the environment.

1.3 Objectives of the Study

The objective of the study is to establish how Construction Companies in Kenya have responded to changes in the environment.

1.4 Significance of the study

The study will be important to various stakeholders in four respects. First, entrepreneurs interested in starting a construction company will find the study an invaluable insight in understanding the dynamics of the business. Second, current contractors will find the study useful in guiding on the strategies to craft during changing environmental conditions. Third, scholars wishing to carry out further research in the industry could find the study a useful resource since no prior study has been undertaken on responses by construction companies in Kenya to changing environmental conditions. The study is an additional resource that policy makers and practitioners in the industry can find useful.

CHAPTER TWO: LITERATURE REVIEW

2.1 The concept of strategy

Johnson and Scholes (2002, pg10) defines strategy as the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations. An organization matches the resources and activities to the environment to achieve strategic fit. Strategic fit is developing strategy by identifying opportunities in the business environment and adapting resources and competences so as to take advantage of these. The development of the concept of strategy as an explicit tool for making economic and social decisions in organizations is fairly recent in both management theory and practice and is traced to the post world war II period (Hofer, 1979). After World War II the vast majority of US companies diversified into other industries as well as expanding overseas. Diversification resulted in additional complexity and hence the creation of the multi-dimensional structure. Increased rates of environmental change and competitive pressure added the complexity of managing leading US companies. This also led to the development of the concept of corporate strategy as a tool for integrating firm's diverse functional area policies.

Drucker (1946) through his book set the strategy ball rolling. He looked at General Motors (GM), General electric (GE), International business machines (IBM) and Sears Roebuck. Chandler (1962) highlighted the close relationship between strategy and structure. He stated that the role of the salaried manager and technician was vital and talked about the "visible" hand. According to Chandler, strategy is the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources for carrying out the goals. On the other hand structure is the design of organization through which the enterprise is administered. Corporations should develop their strategy before deciding their structure.

Quinn (1980) identifies strategy as the pattern or plan that integrates an organization major goals, policies and action sequences into a cohesive whole. A well formulated strategy helps to marshall and allocates an organization's resources in a unique and viable posture based on its relative internal competences and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents. Mintzerberg (1985) defines strategy as a plan, ploy, pattern, position and perspective. Mintzerberg looks at strategy as a plan or some sort of consciously intended course of action, a guideline to deal with a situation. Strategy as a ploy really is just a specific manouvre intended to outwit an opponent or competitor.

Strategy is a pattern – specifically, a pattern in a stream of actions (Mintzberg and Waters, 1985). According to this definition strategy is consistency in behaviour, whether or not intended. Strategy is a position – specifically, a means of locating an organization in an environment. According to this definition strategy becomes the mediating force – or match between organization and environment, that is between the internal and external context. Strategy is a perspective, its content consisting not just of a chosen position, but of an ingrained way of perceiving the world. This definition suggests above all that strategy is a concept.

Porter (1980) states that strategy is basically about competition and the means by which an organization tries to gain a competitive advantage. He further states that a competitive strategy is a broad formula for how a business is going to compete, what it's goals should be and what policies will be needed to carry out those goals. According to Ohmae (1983), the only purpose of strategic planning is to empower an organisation to efficiently gain a sustainable competitive advantage over its competitors. Andrews (1971) defines corporate strategy as the pattern of major objectives, purposes or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is to be.

According to Ansoff (1990), a strategy is a set of decision making rules for guidance of organizational behaviour. The first being yardsticks by which the present and future performance of the firm is measured. The quality of these yardsticks is usually called objectives and the desired quantity goals. The second is rules for developing the firm's relationship with its external environment. What product, technology the firm will develop, where and to whom the products are to be sold and how will the firm gain advantage over competitors. This set of rules is called the product-market or business strategy. The third is rules for establishing the internal relations and processes within the organisation; this is frequently called the organizational concept. The fourth are the rules by which the firm conducts its day today business called operating policies.

Strategy is a potentially very powerful tool for coping with the conditions of change which surround the firm today but it is complex, costly to introduce and costly to use. Nevertheless, there is evidence that it more than pays for itself. A strategy is an action a company takes to attain one or more of its goals (Hill and Goreth, 1999). For most if not all organizations an overriding goal it so achieve superior performance. Thus, a strategy can often be defined more precisely as an action a company takes to attain superior performance.

Thompson (1997) states that strategies are means to ends and these ends concern the purpose and objectives of the organisation. They are things that businesses do, the paths they follow and the decisions they take, in order to reach certain points and levels or success. According to Thompson and Strickland (1992) an organizations strategy consists of the moves and approaches devised by management to produce successful organisation performance. Strategy in effect is management's game plan for the business. Managers develop strategies to guide how an organisation conducts its business and how it will achieve its target objectives. Without strategy, there is no established course to follow, no roadmap to manage by and no cohesive action plan to produce the intended result.

Rumelt et al (1995) states that strategy is about the direction of organizations, and most often, business firms. Firms if not all organizations are in competition. Competition for factor inputs, competition for customers, and ultimately competition for revenues that cover the costs of their chosen manner of surviving.

2.2 Strategic management

According to Johnson and Scholes (2002) strategic management includes understanding the strategic position of an organization, strategic choices for the future and turning strategy into action. The strategic position is concerned with the impact on strategy of the external environment, internal resources and competences, and the expectation and influence of stakeholders. Strategic choices involve understanding the underlying bases for future strategy at both the corporate and business unit levels and the option for developing strategy in terms of both the direction and methods of development. Translating strategy into action is concerned with ensuring that strategies are working in practice.

Pearce and Robinson (2002, pg6) have defined strategic management as the set of decision and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of an organisation. It involves long-term, future – oriented, complex decision making necessitating top management action because of the resources required to formulate an environmentally opportunistic plan. According to Thompson (1997) strategic management is a process which needs to be understood more than it is a discipline which can be taught. It is the process by which organizations determine their purpose, objectives and desired levels of attainment decide on actions for achieving those objectives in an appropriate time scale and frequently in a changing environment; implement the actions and assess progress and results. Whenever and wherever necessary the actions may be changed or modified. The magnitude of these changes can be dramatic and revolutionary, or more gradual and evolutionary (Thompson, 1997).

Strategic management involves awareness of how successful and strong the organization and its strategies are, and of how circumstances are changing. At any time, previously sound products, services and strategies are likely to be in decline or threatened by competition. As this happens new windows of opportunity are opening for the vigilant and proactive companies. New strategies must be created (Thompson, 1997). These may be changes to the corporate portfolio or changes at the competitive level. Sometimes these strategic ideas will emerge from formal planning processes, at other times, and particularly in the case of functional and competitive strategies, changes will emerge as managers throughout the organisation try out new ideas. Existing and new strategies must be implemented (Thompson, 1997). Effective implementation and the creation of new strategies concerns process. The Processes involved in designing and carrying through any changes must be managed, monitored and controlled.

According to Thompson and Strickland (1992) the five tasks of strategic management include developing a concept of the business and forming a vision of where the organisation needs to be headed, in effect, infusing the organisation with a sense of purpose, providing long-term direction and establishing a mission. The second task involves Converting the mission into specific performance objectives. The organization then needs to Craft a strategy to achieve the targeted performance. The fourth task is implementation and executing the chosen strategy efficiently and effectively. The fifth task is evaluating performance, reviewing the situation and initiating corrective adjustments in mission, objectives, strategy or implementation in light actual experience changing conditions, new ideas and new opportunities.

The history of strategic management is divided into three periods or stages. These periods have been compared to swings of a pendulum. In the first period (1960s-1970s) the emphasis of strategic management was in issues internal to the firm. Then in the 1970's the pendulum swung and emphasis was more on industry-wide issues or issues external to the firm. During the 1990s the pendulum swung back and more emphasis was again given to internal factors. During the first stage, the focus was on firm's internal strengths and managerial capabilities. The tools that were developed at the time include the Ansoff's Matrix, SWOT model, experience curve, BCG growth share matrix and Industry attractiveness-business strength matrix. The predominant schools of thought at the time were the design and the planning school.

In the 1970s and 1980s there was a shift in perspective from internal to the firm to external industry-wide perspective. The tools developed during this time were as a result of the work of industrial economists. The focus was external and the unit of analysis was the industry or competing groups of firms. The most important contribution of the industrial economists was the structure-conduct-performance paradigm. It basically states that the firms' performance is primarily a function of the industry environment structure. Structure determines conduct which in turn determines performance. The contributions of Porter resulted in the positioning school which is one of the major schools of thought throughout the history of strategic management. The tools developed by Porter include the five forces model, generic strategies and the value chain

The1980s and 1990s saw a proliferation of strategy theories. New perspectives were employed ranging from economics, sociology, psychology and anthropology. The focus was more towards the firm-level strategies. The schools of thought at the time were the learning and the cultural school. The tools of strategy developed during this period include resource based view model, business process reengineering, delphi technique, benchmarking and the knowledge-based view model

2.3 External Environment and the organization

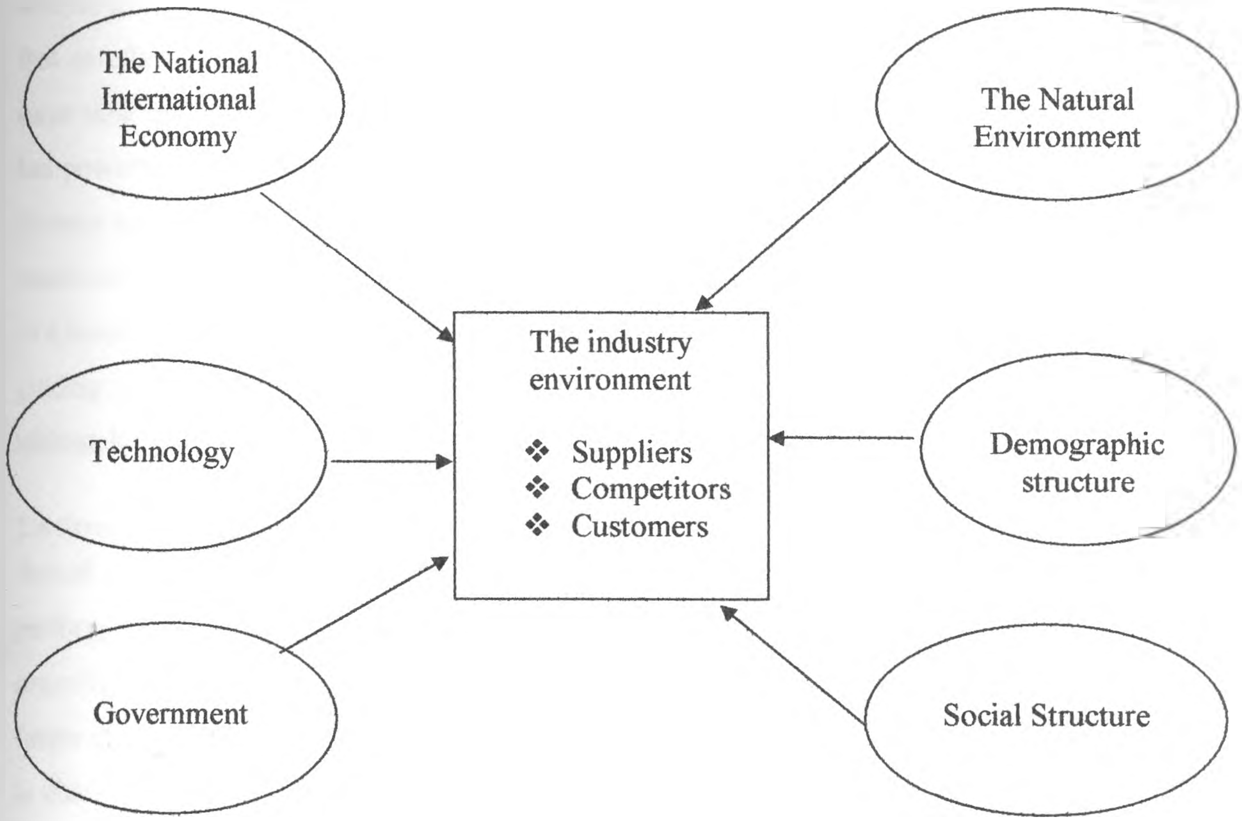
A host of external factors influence a firm's choice of direction and action and ultimately, its organizational structure and internal processes. These factors, which constitute the external environment, can be divided into three interrelated subcategories; Factors in the remote environment, factors in the industry environment, and factors in the operating environment (Pearce and Robinson, 2002). The remote environment comprises factors that originate beyond and usually irrespective of any single firms operating situation and include economic, political, social and technological. The remote environment presents firms with opportunities, threats and constraints but rarely does a single firm exert any meaningful reciprocal influence (Pearce and Robinson 2002).

According to Grant (1998), the business environment of the firm consists of all the external influences that impact a firm's decision and performance. Lynch (1997) used the term environment to describe everything and everyone outside the organisation. This includes customers, competitors, suppliers, distributors, government and social institutions. As elements of the environment change, the organisation needs to adjust its corporate strategy accordingly. The business environment is being subjected to rapid degree of change and managers typically feel that the pace of technological change and speed of global communications mean more and faster change now than ever before (Johnson and Scholes,2002).

In a given industry, the five forces framework by Porter helps identify the sources of competition in an industry or sector. The five forces are the threat of entry, the threat of substitutes, competitive rivalry, buying power and Power of suppliers. Threat of entry will depend on the extent to which there are barriers to entry (Johnson and Scholes, 2002). These are factors that need to be overcome by new entrants if they are to compete successfully. Substitution reduces demand for a particular "class" of products as customers switch to the alternatives – even to the extent that this class of products or services becomes obsolete. This depends on whether a substitute provides a higher perceived benefit or value.

Competitive rivals are organisations with similar products and services aimed at the same customer group (Johnson and Scholes, 2002). Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction and advertising. Suppliers can exert bargaining power on participants, in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers, thereby can squeeze profitability out of an industry unable to recover cost increases in its own prices (Pearce and Robinson 2002). Powerful customers (Buyers) likewise can force down prices, demand higher quality or more services and play competitors off against each other – all at the expense of industry profits.

Fig 1: The Business Environment



Source: Grant (1998)

Andrews (1971) states that the determination of a suitable strategy for a company begins in identifying the opportunities and risks in its environment. The environment of a company in business, like that of any other organic entity is the pattern of all the external conditions and influences that affects its life and development (Andrews, 1971). The environment influences relevant to strategic decision operate in a company's industry, the total business community, its city, its country, and the world. They are technological, economic, social and political in kind. In these categories, change is taking place at varying rates – fastest in technology, less rapidly in politics. Change in the environment of business necessitates continuous monitoring of a company's definition of its business lest it become inappropriate or even obsolete.

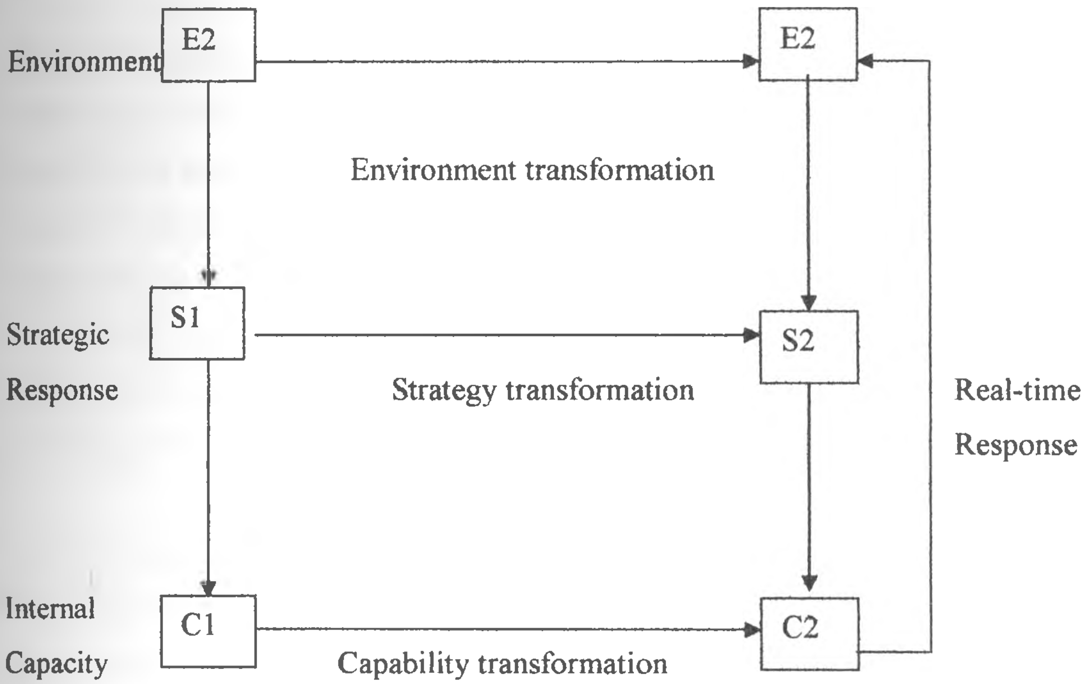
The SWOT analysis is a tool used in business strategic planning. SWOT is used to analyse the internal and external environment of a business. SWOT is based on the logic that an effective strategy maximizes a business's strengths and opportunities but at the same time minimizes its weaknesses and threats. This assumption if accurately applied has powerful implications for successfully choosing and designing an effective strategy (Pearce and Robinson, 2002). External environment analysis involves monitoring key macro environment forces and significant microenvironment actors that affects the ability of a business to earn profits (Kotler, 2000). SWOT analysis provides a logical framework guiding systematic discussions of the business's situation, alternative strategies, and ultimately the choice of strategy.

2.4 Strategic Diagnosis

Ansoff and McDonell (1990) asserts that the first step in strategic management is to perform a strategic diagnosis which identifies the turbulence, type of aggressiveness and organizational responsiveness a particular firm needs to develop in order to meet the future challenges of its environment. Strategic diagnosis identifies whether a firm needs to change its strategic behaviour to assure success in the future environment.

Fig 2 in the next page clearly indicates the environmental dependence of an organization. When there is an environmental shift from E1 to E2, then the organisations' strategy has to be changed from S1 to S2 in order to adapt to the changed environmental conditions. If strategy is not changed there will be a strategy gap. However, this is only possible when the organisation's capability is changed from C1 to C2. According to Johnson and Scholes (2000) there is need to establish whether the organisations' strategies continue to fit the environment in which the organization is operating and the opportunities and threats that exist. He further states that many of the issues of strategy development are concerned with changing strategic capability better to fit a changing environment.

Fig 2: Managing the Firms Adaptation to the Environment



Key

E1	Current Environment	E2	Future Environment
S1	Current Strategy	S2	Future Strategy
C1	Current Capability	C2	Future Internal Capability

Source: Ansoff and Mc Donnell (1990)

The environmental turbulence is described by the difference between present and future critical success factors within a strategic business area (SBA). The strategic aggressiveness is measured by the match between the characteristics of the firm's competitive strategy and the critical success factors. The responsiveness criterion is measured by the match between the critical capability success factors and the capability profile of the firm. Responsiveness can be described by three capability attributes. These include climate, competence and capacity. Climate setting involves the mentality and power positions of the managers. This determines the organizational culture. Competence involves the talents, skills and knowledge of the management. It will determine the organizational structures, systems and shared knowledge. Capacity involves the personal and organizational capability to accommodate the various management challenges as may arise from time to time.

Strategic diagnosis is a systematic approach to determine the changes that have to be made to a particular firm's strategy and its internal capability in order to assure the firm's success in its future environment. This approach is derived form the strategic success hypothesis which states that a firm's performance potential is optimum when the aggressiveness of the firm's strategic behaviour matches the turbulence of its environment; the responsiveness of its capability matches the aggressiveness of its strategy and the components of its capability are supportive of one another. For optimum profitability, the responsiveness must match the turbulence of the firms' environment.

Strategic capability is underpinned by the resources available to an organization since it is resources that are deployed into the activities of the organization to create competences (Johnson and Scholes, 2002). From a strategic perspective an organization's resources include those that are owned by the organization and those that can be accessed to support its strategies. Typically, resources can be grouped into physical resources, financial resources, human resources and intellectual capital.
Physical resource includes machines, buildings or production capacity. The nature of these resources, such as the age, condition, capability and location of each resource, will also determine the usefulness. Human resources include knowledge, skills of people and adaptability of human resources. This applies both to employees and to other people in an organizations' networks.

Financial resources include capital, cash, debtors, creditors and suppliers of money (shareholders, bankers etc). Intellectual capital consists of the intangible resources of an organization and is often overlooked or undervalued. This would include the knowledge that has been captured in patents, brands, business systems, customer databases and relationships with partners. In a knowledge-based economy, intellectual capital is likely to be the major asset of many organizations and there are pressures to find ways of assessing and accounting for the value of intangibles.

A set of threshold resources are needed to exist as a provider to any market segment. But this threshold tends to rise with time so there is a need continuously to improve this resource base just to stay in business. Organization may have to change their resource base considerably just to stay in business. Unique resources are those resources which critically underpin competitive advantage. They sustain the ability to provide value in the product, are better than competitors' resource and are difficult to imitate.

2.5 Strategic Reponses

Ansoff and McDonnell (1990) note that strategic responses involve changes to the organisations' strategic behaviour. Such responses may take many forms depending on the organizations' capability and the environment in which it operates. Well-developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. The strategic responses include new products, new markets, new processes, new services and new strategies for attacking the markets.

Market penetration refers to gaining market-share for the business involved, and usually entails fundamental changes to the competitive position. Market penetration can be achieved through differentiation or cost leadership. Porter (1985) advocates that differentiation is achievable by either becoming more individual in performing its existing activities or by reconfiguring its value chain in such a way that enhances tits individuality. However, the organization must control the cost of differentiation so that it translates into superior performance.

Market development involves the business in exploiting existing products in new areas. This option means that the organization is retaining the security of its competencies in the development of new market areas. Product development is an option for product innovation for existing markets. This may involve new product types derived form technical development or adaptations and improvements. Product development may be vital if the enterprise is to survive. Diversification implies that the organization will develop into areas beyond the current products and markets at the same time. The two main types of diversification are related and unrelated. Related diversification moves the enterprise from existing markets and products while remaining within the same industry and encompass vertical and horizontal integration into quite different industries which probably bears little or no relation to each other.

According to Wairegi (2004) the insurance industry has responded to the external environmental changes through such initiatives as new product development, development of new distribution channels, diversification, organizational restructuring, investment in human resources, customer service improvements, adoption of information technology and lobbying the government through the association of Kenya Insurer (AKI).

According to Mwarania (2003) Kenya Re has responded to changes in the environment in many ways. Great emphasis has been placed on local and international marketing function. There has been deliberate and focused staff training programmes developed. Retrenchments were done three times to rationalize staff. Investments were done in real estate to generate rental income and undeveloped land acquired for future speculative sale. Technology has been embraced including computerization and creation of a website. Financial investments have been spread out between short and long term ones.

Mugambi (2003) established that, as a result of the economy's progressive decline and liberalization, tourist hotels in Nairobi have responded by restructuring their activities marketing, cost management and outsourcing of non-core activities.

Chepkwony (2001) found that liberalization of the Kenya Oil Industry has witnessed a lot of intense competition among the major players. To remain competitive the Oil Companies have responded by making substantial adjustments in the markets served, goals prioritization and re-designed their organizational structure with a view of making them flatter and hence increase efficiency. Strategic alliances have begun to set foot in form of shared depot facilities.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Methodology

The research design for this study was a cross-sectional survey .This is a descriptive study that answers the question who, what, where, when and how. This type of design is suitable because the study was be concerned with measurements of same variables at a particular point in time to facilitate comparisons.

3.2 Population

The primary body entrusted with the registration of contractors in the country is the Ministry of Roads and Public Works. The total number of contractors registered with the Ministry of Roads and Public works as of November 2005 is 1346. It is a mandatory requirement that a contractor be registered with the Ministry to qualify to tender for projects in the Public Sector. The target population of this study was the 700 general building contractors whose offices were registered in Nairobi.

3.3 Sampling technique and Sample size

Random sampling technique was used to select the companies to participate in the study. In this respect, the 700 registered general buldingcontractors were given serial numbers ranging from 1 to 700. Ms Excel was then used to generate 60 random numbers representing the sample. Additional 20 random numbers were drawn to serve as replacements. Companies in the sample were replaced only when they refused to grant an interview or were found to have moved from the registered location. A sample of 60 was used due to the homogeneity of the sample frame.

3.4 Data collection

Primary data was collected by use of a questionnaire with both closed and open ended questions. Mail- questionnaires was sent to the sixty construction companies. There was only one respondent in each company who was either the Managing Director or the Commercial Manager. Out of the targeted 60 construction companies, 43 responded representing a success rate of 72%.

3.5 Data Analysis

The data collected was coded and entered in the SPSS program where the analysis was done. Percentages, mean and proportions were used to determine the levels and types of strategic responses by construction companies. Bar graphs and pie charts were used to present findings in relation to the research objectives.

CHAPTER FOUR: DATA ANALYSIS AND RESEARCH FINDINGS

4.1 Respondent Characteristics

4.1.1 Classification

Construction companies are classified into categories ranging from A to H. The classifications are determined by the companies' technical and financial capacity. Category A companies are the highest ranked and most equipped. Table 1 shows the classification of the companies surveyed.

Table 1: Company Classification

Classification	Frequency	Percentage
A	11	25.6
B	4	9.3
C	8	18.6
D	2	4.7
E	9	20.9
F	5	11.6
H	4	9.3
Total	**43**	**100.0**

Source: Questionnaire

Table 1 shows that 25.6% of the firms interviewed were in Class A. Class D with 4.7% representation had the least firms.

4.1.2 Type of Projects

The study sought to establish the actual kind of projects that the construction companies undertook. The findings are shown in Table 2

Table 2: Type of project undertaken

	Frequency	Percentage
General building	36	83.7
Structural steel work	6	14.0
Electrical installation	4	9.3
Plumbing and drainage	3	7.0
Total	**49**	**100.0**

Source: Questionnaire

It is shown in Table 2 that majority (83.7%) of the construction firms did general building and 14% did structural steel work. This indicated that general building was the main type of projects the firms undertook. It was further revealed that one out of every three firms that did general building did also other types of construction work. This is probably out of the need to expand their scope and thus attract more clients.

4.1.3 Type of Organization

The study also sought to know the ownership structure of the construction firms surveyed. The respondents were asked to state the type of organization and the responses obtained are as shown in Table 3.

Table 3: Type of organization

Type of organization	Frequency	Percent
Private limited company	26	60.5
Public limited company	10	23.3
Partnership	4	9.3
Sole proprietorship	3	7.0
Total	**43**	**100.0**

Source: Questionnaire

The findings in table 3 show that majority of the firms (83.8%) were incorporated as limited companies although majority were private. Sole proprietorships only made up 7%

of the sample. The nature of investment required in terms of construction equipment probably discourages sole proprietorships.

4.1.4 Staffing level in construction firms

The study investigated the staffing levels in the construction companies studied. Table 4 shows the average number of permanent employees in the surveyed companies.

Table 4: Average number of employees

Staffing	Mean	Std. Deviation
Number of technical staff	11.57	14.988
Number of managerial staff	4.60	3.216
Number of administrative staff	5.29	3.556

Source: Questionnaire

Table 4 shows that the average number of technical staff in construction firms studied was 11 to 12. The firms also had an average of 4 -5 managerial staff. It was noted that the firms relied heavily on casual labour. These were recruited on site when there was work requiring more labour than could be offered by the permanently employed staff.

4.1.5 Associations and partnerships

The study sought to find out whether the construction firms entered into any form of partnerships or associations with local or foreign companies. Table 5 shows the proportion of companies that had associations.

Table 5: Associations

	Frequency	Percent
Had associations	7	16.3
No associations	36	83.7
Total	**43**	**100.0**

Source: Questionnaire

It can be seen that 16.3% of the firms were associated with other companies. It was further established that the associations were mostly local. Table 6 shows the nature of associations the companies made.

Table 6: Nature of association

	Frequency	Percent
Joint venture	4	57.1
Mergers & Acquisitions	2	28.6
Subsidiary	1	14.3
Total	7	**100.0**

Source: Questionnaire

As shown in table 6, 57.1% of the firms that had associations had joint ventures while only 14.3% were subsidiaries. This is so probably because of a need to share strengths and equipment necessary to handle larger projects. It was further revealed that 62.8% of the firms operated from rented offices and 37.2% owned the business premises.

4.1.6 Turnover trends

The study attempted to estimate the turnover trends for the construction companies over the six years preceding the study. This was done with a view of establishing the extent to which the impact of economic expansion was felt in the construction industry. Table 7 shows the average number of construction projects and their value in the last 6 years.

Table 7: No of projects done and their value

Year	2000	2001	2002	2003	2004	2005
Value (Millions Ksh.)	1,950.2	1,844	1,328	3,318.8	6,509.8	7,251.9
Total No. of projects	67	85	81	97	105	122

Source: Questionnaire

The number of construction projects done as is their value has been increasing in the last five years. There expansion in 2004 can be seen to be nearly double that of year 2003. Notable is the increased value of projects in the later years. This is evidence that the projects that have been carried out have been of high value. Generally, the construction sector was seen to have experienced growth in tandem with expansion in the national economy.

4.2 Environmental Challenges Faced

The study sought out to investigate the broad external environmental factors that greatly affected the performance of their businesses. Respondents were asked to indicate on a scale of 1 (not at all) to 5 (greatly affected) the extent to which the affected the construction industry.

4.2.1 Broad environmental factors

The respondents were required to rate the influence of each of the factors on a scale of 1-5. The responses obtained are shown in Table 8.

Table 8: Challenges Faced

Challenge	Mean	Std. Deviation
Economic	4.0	1.03
Political	3.2	1.44
Legislative and regulatory	3.1	1.14
Social and demographic	2.7	1.39
Information Technology	2.5	1.00

Source: Questionnaire

As shown in table 8, respondents attested that economic challenges were of most influence to their businesses (mean of 4.0). This is probably because construction business varies directly with the state of the economy, both individual and national. This finding suggests that construction firms faced the greatest challenge in the period when the economy was under recession.

Political challenges were also ranked highly (mean of 3.2) in terms of their influence on the construction business. This is probably because of obstacles encountered in endeavours to access lucrative government contracts as well as policy decisions.

Information technology (IT) on the other hand was ranked to have the lowest influence on the businesses. This indicates that IT had not been very much embraced in the construction business, hence thought to be the most dispensable. The standard deviation of 1.00 indicates that respondents were most unanimous in that regard.

4.2.2 Specific environmental factors

The study went further to investigate the specific challenges that affected business performance. Table 9 below shows the rating of government related factors.

Table 9: Government related factors

Government	Mean	Std. Deviation
New land policy of logging timber from forests	3.9	1.00
Political uncertainty	3.5	1.62
Foreign aid restrictions	3.4	1.59
Revival of government stalled projects	2.9	1.33

Source: Questionnaire

As shown in table 9, the land policy of logging timber from forests (mean of 3.9) was ranked to be the aspect with the highest influence on the construction business. This implies that the anticipated policy was viewed as a threat to the existing equilibrium of timber and wood supply.

Among the government related factors, political uncertainty was ranked the least influential government related factors that affected business. This is an indication that the respondents viewed the political climate in the country as largely stable and with no immediate threat.

Table 10: Economic factors

Economic	Mean	Std. Deviation
Inflation	4.0	1.33
Economic growth	3.8	1.18
Increase in development budget	3.8	0.87
ETR introduction	2.5	1.32

Source: Questionnaire

As shown in table 10, respondents rated inflation as the factor with the highest influence on the construction business. The standard deviation of 1.33 is indicative of a mild consensus among the respondents. The introduction of Electronic Tax Registers (ETR) was rated to be the factor with the least economic effect on the construction firms.

Table 11: Legislative/Regulatory factors

Legislative/regulatory	Mean	Std. Deviation
Increased regulations by MPW	2.9	1.23
Review of the public procurement bill	2.9	1.22

Source: Questionnaire

The findings presented in table 11 reveal that legislative/regulatory factors were rated the same in terms of their influence in the construction business. The mean of 2.9 also shows that respondents gave the factors a mostly neutral rating in terms of their influence on their business in the preceding 5-10 years.

Table 12: Socio-economic factors

Socio-economic	Mean	Std. Deviation
Increased awareness & more demanding customers	2.6	1.48
HIV /AIDS scourge	2.1	1.06
Demand for higher education	2.1	1.26

Source: Questionnaire

Table 12 shows socio-economic factors were generally considered to have had below average influence on the construction businesses over the past 5-10 years. Unlike many other sectors that had been affected by the HIV scourge, the construction businesses were reported to be least affected.

Table 13: Information Technology factors

IT	Mean	Std. Deviation
Increased use of IT applications	2.2	1.35
Technology influence on demand	2.1	1.30

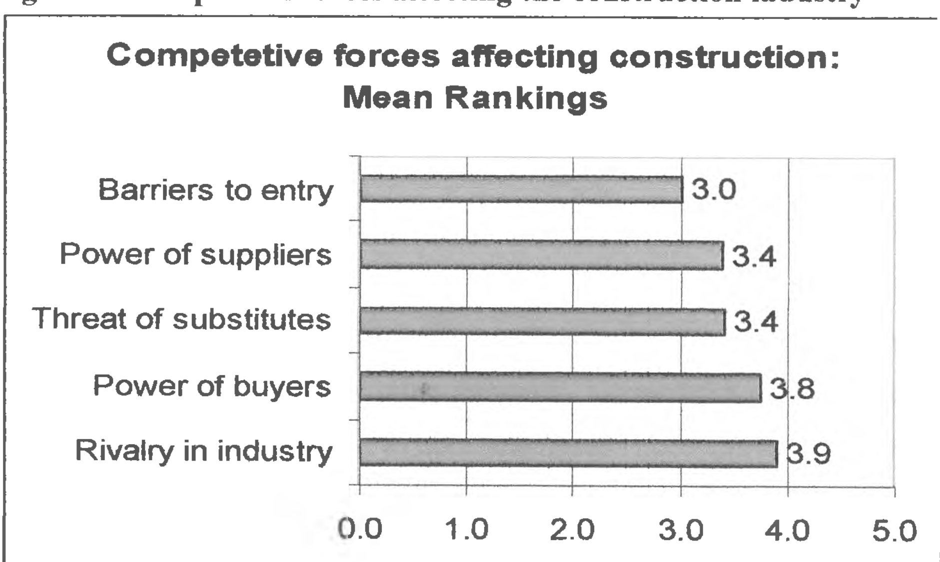
Source: Questionnaire

As presented in table 13, Information Technology related factors were reported to least affect the performance of the construction business. This is probably so because construction works by nature is not dynamic but rather conforms to existing set standards. The place of Information Technology therefore is limited to subordinate roles as opposed to construction work itself.

4.2.3 Competitive Forces Affecting the Construction Industry

The study sought out to establish how severely some of the listed factors had affected the construction industry. The mean rankings of the responses obtained are as shown in figure 1 below.

Figure 3: Competitive forces affecting the construction industry



Source: Questionnaire

It is illustrated in Figure 3 that rivalry in the industry (mean 3.9) was the most highly ranked competitive factor. This finding suggests that the multiplicity of players in the industry could be basis for fierce competition for business hence the rivalry. Further, corruption is likely to thrive in an environment with too much competition as some players would be tempted to use unscrupulous means to secure contracts.

Barriers to entering the industry (mean of 3.0), was ranked as the least influential competitive force in the industry. This is probably because of open entry requirements that do not limit the more players from joining the industry.

4.3 Strategic Responses

Faced with external challenges, most organizations would roll out a set of responses that they may deem necessary for survival. The study sought to investigate whether and how the construction firms reacted in the face of external challenges. Shown in Table 14, are results of whether the firms made any response to the challenges.

Table 14: Organizational response to environmental changes

	Frequency	Percent
Yes	31	72.1
No	4	27.9
Total	**43**	**100.0**

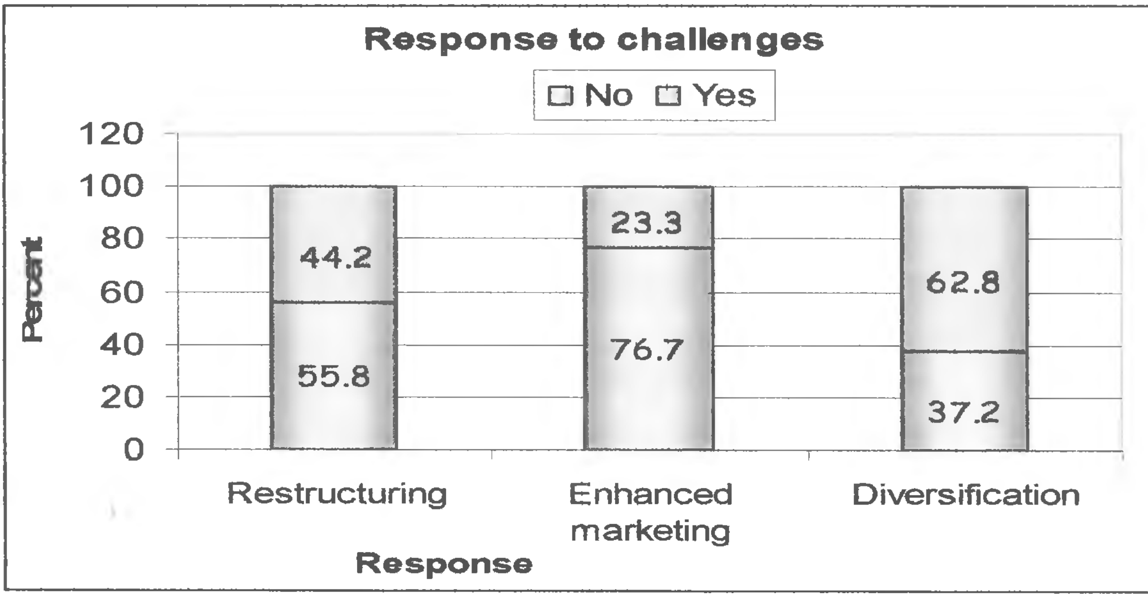
Source: Questionnaire

As shown in Table 14, majority of the construction companies (72.1%) responded to environmental changes. This indicates that in the face of challenges, most companies would initiate some sort of coping measures. However, it can be observed that about one in every four did not respond to the challenges. This is probably because the firms lacked the capacity, managerial or financial, to institute suitable responses.

Figure 4 shows responses by construction firms to the challenges faced. The responses were of three types namely; restructuring, enhanced marketing and diversification.

Companies tended to invoke one or a combination of the measures to overcome the challenges.

Figure 4: Organization's response to challenges



Source: Questionnaire

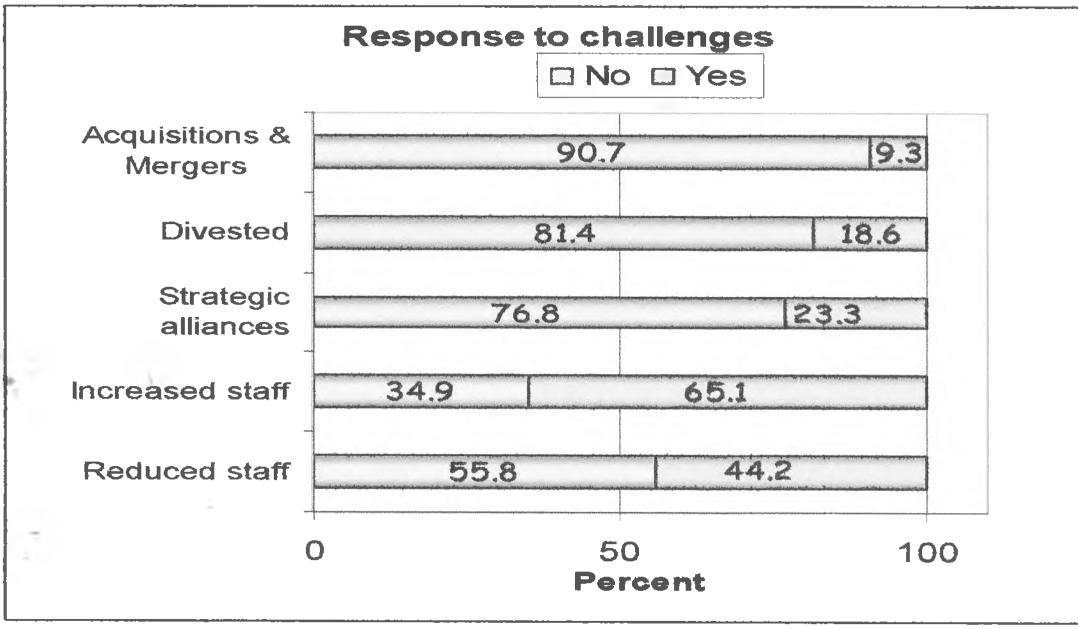
As shown in figure 4, majority of the firms 62.8% resorted to diversification when faced with challenges. This was probably out of the need to spread risk by increasing portfolio.

It can also be seen that restructuring as measure for countering the challenges was used by 44.2% of the companies. This indicates that many construction companies had to re-examine their operations and a large number did some realignment. The finding appears to suggest challenges although undesirable, could trigger companies into making changes that could improve their efficiency.

The least resorted to measure in the face of challenges was enhanced marketing. It can be seen that only 23.3% of the companies stepped up their marketing efforts when faced with external challenges. This indicates that most construction companies opted to align their operations to fit the unfolding market conditions as opposed to prompting the market accept their service as it is. These findings could be a lead to the fact that most construction companies are not well equipped with human resource in charge of strategic planning and marketing. This is probably because the staff is largely technical due to the nature of the work they do.

Figure 5 shows the specific responses the companies made in respect to restructuring.

Figure 5: Restructuring related responses



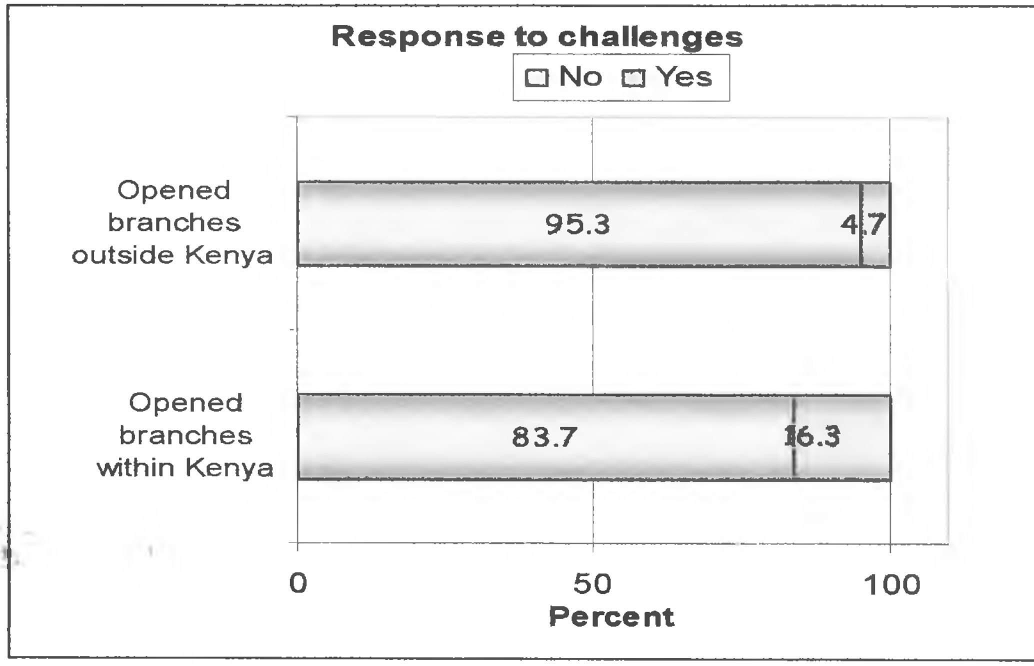
Source: Questionnaire

As shown in Figure 5, majority of the construction firms increased the staff levels. This is most likely so because the companies had at some point experienced increased activity that called for positive restructuring. On the other hand, 44.2% of the companies resorted to job cuts when challenges became visible.

The findings further reveal that acquisitions and mergers were the least resorted to means of overcoming restructuring. This is probably because most companies failed to position themselves as attractive entities for mergers. It is also likely that due to the nature of ownership of the construction companies (majority were privately owned); most directors might have been reluctant to cede control of the companies, even when it could have been prudent to do so.

The marketing related responses undertaken obtained are shown in figure 6.

Figure 6: Marketing related responses



Source: Questionnaire

Figure 6 shows that 16.3% of the companies enhanced their marketing activities by opening more branches in the country and only 4.7% ventured into the international market. The finding shows that the firms did not have many options available in respect to improving their marketing.

It was also established that one quarter of the companies surveyed had closed down or withdrawn a service within the 10 years preceding the study. A similar proportion had in the same period of time opened up new businesses.

Table 15: Opened up new business in the last 10 years

	Frequency	Percent
Yes	11	25.6
No	32	74.4
Total	**43**	**100.0**

Source: Questionnaire

As shown on table 15, only a quarter of the firms indicated that they had opened new business in the last 10 years. Opening up new businesses by firms was mainly a reaction to the changes in the external environment.

Table 16: Related/Unrelated businesses

	Frequency	Percent
Construction related	9	20.9
Construction unrelated	8	18.6
N/A	26	60.5
Total	**43**	**100.0**

Source: Questionnaire

Of those who indicated that they opened up new business, 20% indicated that the business opened was related to construction while almost the same number indicated that they had opened unrelated business (table 16). Firms found it easy to open related businesses because of they were able to exploit and take advantage of the core competencies that they have already developed over years.

4.4 Strategic Fit

The study required the informants to evaluate their strategic responses to competition. The firms' preparedness for future challenges both seen and foreseen was also sought. Table 17 shows the respondents opinion regarding the adequacy of the strategic responses initiated.

Table 17: Opinion on company strategic responses to competition

	Frequency	Percent
Adequate	29	67.4
Inadequate	10	23.3
No response	4	9.3
Total	**43**	**100.0**

Source: Questionnaire

Majority of the informants (67.4%) said the strategic responses made were adequate while 23.3% said otherwise. This suggests that two out of every three firms believed they had what is required internally to appropriately respond to external challenges.

The informants that felt their firms had not initiated adequate measures gave the suggestions in table 18 as regards what they ought to do to remain competitive.

Table 18: What companies should do to remain competitive?

	Frequency	Percent
Maintain good standard of workmanship	4	40.0
More aggressive marketing	4	40.0
Purchase of modern/efficient equipment	2	20.0
Total	**10**	**100.0**

Source: Questionnaire

As shown in table 18 the informants reiterated the need to maintain a good standard of workmanship (40%). This signifies an understanding on the construction firms that offering superior quality services combined with good marketing were strategies to staying competitive. Similarly majority of the informants (69.8%) felt that their companies possessed the necessary capability to adopt aggressive strategies to match external environment changes.

Asked to make other comments on the construction industry in general, the respondents gave the responses shown in table 19.

Table 19: Other comments

Other comments	Frequency	Percent
Lower interest rates and easy access to finances	8	44.4
Delay in honouring payment certificates	4	22.2
Corruption in the sector addressed	3	16.7
Government needs to review the tendering process (procurement procedures- bureaucracies)	2	11.1
Should make use of local inputs- contractors	1	5.6
Total	**18**	**100.0**

Source: Questionnaire

Table 19 indicates that most respondents (44.4%) called for reduction in interest rates and lending requirements. The potential of the local construction industry can only be fully exploited if construction firms can obtain the financial resources they need to expand their operations.

The respondents decried the government's delay in honouring its payment obligations. They also wanted corruption in the sector addressed. This would most likely give all of them an equal chance in procuring government tenders.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Majority (83.7%) of the construction firms did general building and 14% did structural steel work. This indicated that general building was the main type of work the firms undertook. It was further revealed that one out of every three firms that did general building did also other types of work. This indicates an element of diversification by the firms as they seek to expand their scope of work. Majority of the firms (83.8%) were incorporated as limited companies although majority were private. Sole proprietorships only made up 7% of the sample. The nature of investment required in terms of construction equipment probably discourages sole proprietorships. Only 16.3% of the companies were associated with other companies. The associations were mostly local. Of the companies that had associations, 14.3% were on subsidiaries, 57.1% joint ventures and 28.6% entailed mergers and acquisitions.

The number of construction projects done as is their value has been increasing in the last five years. However, it is important to note that the value of the projects has increased at relatively higher rate than the actual projects. This is evidence that the projects that have been carried out have been of high value. It is also an indication that there is a relationship between the level of economic growth and construction in an economy.

A number of challenges affect the construction industry. Economic factors were rated as the greatest challenge (mean of 4 out of 5) that affected the construction industry. This is because activity in the construction industry is mainly driven by the level of economic performance. Political (mean of 3.2 out of 5) was rated as another challenge that greatly affected the construction industry. This is perceived to be the case because the level of business a construction firm can at times do depends on how well connected they are with the political elite at the time. Information Technology was rated lowest at a mean of 2.5 out of 5. This is largely because of the fact that the construction industry in Kenya has not been quick in adopting the latest Information Technology.

The government's new land policy of logging timber from forests was indicated to have greatly affected the construction industry in Kenya. It was rated at a mean rate of 3.9 out 5. This is the case because government's policy has a great bearing on the way that construction companies respond. Political uncertainly also has a great effect in the construction industry. This is largely related to the fact that construction thrives in an environment where investors feel secure and can plan in the long term with certainty.

In the economic category, inflation (4.0) was indicated as a factor that has great impact on the construction industry generally. Economic growth (3.8) and an increase in development budget (3.8) by the government also greatly affect construction industry. The recent introduction of Electronic Tax Registers has had no significant effect on the construction industry. This can largely be attributed to the fact that most materials used in the construction industry do not fall in the category where they attract Value Added Tax.

Legislation by the Ministry of Public Work and the recent review of the Public Procurement Bill had an adverse effect in the construction industry. This largely has had an effect on the small firms engaged in the construction. This is because any legislation mainly affects big projects undertaken by the government and hence put the small firms at a disadvantage.

Like in any economy, customers are becoming more knowledgeable and hence more aware of their rights. This therefore makes them more demanding. Customers in the construction industry have not been left behind. This therefore poses a challenge to the firms in the construction industry.

Like in any industry, competition and strategy is shaped by a number of issues. The issues include barriers to entry, rivalry in the industry, threat of substitute of products, power of buyers and the power of suppliers. Respondents indicated that rivalry in the industry (3.89 out 5) contributes most to shaping of competition in the industry. This was followed by the power of buyers (3.76), threat of substitutes (3.42) power of suppliers at (3.39). Rivalry in the industry is bound to be intense given the nature and the value of projects that are undertaken in the industry. Buyers are also becoming more powerful largely because of them being more knowledgeable and being aware of their rights.

Threat of substitute products is also bound to shape competition. This is because of the fact that construction is generally expensive and this therefore leads to the seeking of new products that are less costly.

72% of the respondents indicated that they have in one way all the other been able to respond to the changes in the construction industry environment. For those who responded, 42% had done restructuring, 23% enhanced marketing activities and 62.8%diversification.Under restructuring, 44.2% of the respondents indicated that they had effected staff reductions, 65% increased staff, 23.3% strategic alliances, 18.6%, divestiture and only 9.3% acquisitions and mergers. Staff reduction was effected by most companies because it is the easiest to carry out in the short run, when organizations are faced with environmental challenges. Most of the firms indicated that they had increased staff, which may be attributed to the recent improvements in economic growth that have seen increase in the construction projects. Strategic alliances, acquisition and mergers were not so much used by the firms. This is may be attributed to the fact that most of the firms were local.

From the study, for most firms it was evident that they had used minimal marketing activities as a strategic response. Only 16% indicated that they had opened up new branches and 4.7% had opened new operations outside Kenya. Opening up of new branches might have been minimal because of the slump in the economic growth that was evident prior to economic recovery period. Opening of operations outside Kenya might have also been minimal because of the firms being local.

Only a quarter of the firms indicated that they had opened new business in the last 10 years. Of those who indicated that they opened up new business, 20% indicated that the business opened was related to construction while almost the same number indicated that they had opened unrelated business. Opening up new businesses by firms was mainly a reaction to the changes in the external environment. Firms found it easy to open related businesses because they were able to exploit and take advantage of the core competencies that they have already developed over years.

Respondents were asked to indicate if they felt that their firms had adequate strategic responses towards competition. 67% of the firms indicated that they had adequate strategic responses while almost a quarter felt that they had inadequate strategic responses. The high number of firms that have developed adequate strategic responses is evident that firms have been forced by changes in the environment to develop a strategic fit for survival. Staying competitive becomes a key priority for any firm that has to remain in business. Efficiency and developing internal key competencies to take advantage of new businesses are the key strategic directions that firms have therefore to take.

5.2 Conclusions

The construction industry like any other industry has been affected by the challenges posed by the environment under which they operate. As a result firms in the construction industry have had to respond to these challenges in various ways for them to remain in business.

Economic factors were rated as the greatest challenge that affected the construction industry. This is because activity in the construction industry is mainly driven by the level of economic performance. Political factors were rated as another challenge that greatly affected the construction industry. This is perceived to be the case because of the level of business a construction firm is awarded can at times depends on how well connected they are with the political elite at the time and the budgetary allocations for development expenditure.

Staff reduction and increases under restructuring is one of the key quick strategies that most of the firms have adopted. However firms have enhanced their internal efficiencies to take advantage of the opportunities that exist in the environment. It is evident that given the challenges posed by the external environment, the firms will continue positioning themselves to take advantage of the opportunities and also cushioning themselves against any adverse effects.

5.3 Recommendations

Construction companies need to recruit top managers charged with the responsibility of strategic management. The strategy managers have to continuously scan the environment to identify threats and opportunities. The managers then need to craft the strategies that will ensure that a fit exists with the environment. Management information system should be well developed to facilities pricing and tendering.

Further research should be done to establish whether the level of education of the CEO has a direct relationship with the level of strategic response. There is also need to establish whether the level of operations affect the strategic response practices in the industry. Further research is necessary to determine the relationship between GDP and the turnover of construction companies.

5.4 Limitations

Data collection was very difficult as some of the organizations selected to participate in the study were not co-operative in providing the data. Some of the issues in the questionnaire were considered confidential and hence the respondents were unwilling to divulge the information. Some other strategic issues did not seem familiars to a number of respondents.

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APPENDIX I: QUESTIONNAIRE

SECTION A

1. Name of the Company --
2. Name of the Respondent --
3. Position Held by Respondent --
4. When was the Company Established In Kenya --
5. What type of work is undertaken by the company
   - General building ( )
   - Plumbing and drainage ( )
   - Electrical installation ( )
   - Structural Steel Work ( )
   - Other, state ( )
6. Type of Organization
   - Sole proprietorship ( )
   - Partnership ( )
   - Public Limited Liability Company ( )
   - Private Limited Liability Company ( )
7. Number of Directors --
8. Number of permanent employees
   1) Technical --
   2) Managerial --
   3) Administrative --
9. Is your company associated with any other company: Yes/No
10. If yes, please state:
    a) Name of associated company --
    b) Town and Country of registration --
    c) Nature of association --

1) Franchisee ( )

2) Subsidiary ( )

3) Joint venture ( )

4) Mergers & Acquisitions (M&A) ( )

11. Please state the total number of projects and annual turnover of the last 10 years in million Kshs.

1996...............................	2001..........................
1997...............................	2002..........................
1998...............................	2003...........................
1999...............................	2004...........................
2000...............................	2005...........................

12. Please state whether the company offices/yard are:-

Owned ( )

Rented ( )

Other (specify) ( )

13. Please state the volume of work in Kshs done for public institutions in the last 10 years.

1996...............................	2001..........................
1997...............................	2002..........................
1998...............................	2003...........................
1999...............................	2004...........................
2000...............................	2005...........................

SECTION B: ENVIRONMENTAL CHALLENGES

The broad external environmental factors that greatly influence business performance are political/Legal, Economical, Social and Technological changes.

Please state the changes in the above mentioned factors that have favourably or adversely affected the long term construction industry in Kenya in the last 10 years.

1. Political changes
   (a) ....
   (b) ....
   (c) ....
2. Economic changes
   (a) ....
   (b) ....
   (c) ....
3. Legislative and Regulatory changes
   (a) ....
   (b) ....
   (c) ....
4. Social and Demographic changes
   (a) ....
   (b) ....
   (c) ....
5. Information Technology Changes
   (a) ....
   (b) ....
   (c) ....
6. Other changes
   (a) ....
   (b) ....
   (c) ....

Industry Structure

7. Please indicate the severity of the following competitive forces in the construction industry.

	Very Low 1	2	3	4	Very High 5
Barriers to Entry	( )	( )	( )	( )	( )
Rivalry in industry	( )	( )	( )	( )	( )
Threat of substitutes	( )	( )	( )	( )	( )
Power of Buyers	( )	( )	( )	( )	( )
Power of Suppliers	( )	( )	( )	( )	( )

SECTION C: STRATEGIC RESPONSES

1. Have you responded to the above environmental changes?

   Yes ( ) No ( )

2. If yes, Please describe the responses made ....

<u>Restructuring</u>

(a) Have you undertaken any of the following activities in your company in the last 10 years?

	Yes	No
Reduced staff (downsizing)	( )	( )
Entered into strategic alliance with another company	( )	( )
Divested from any line of business	( )	( )
Acquired any new companies/businesses	( )	( )

Marketing

New markets

(a) Have you opened new branches within Kenya in the last 10 years?

Yes ( ) No ( )

(b) Have you opened new operations/companies outside Kenya in the last 10 years?

Yes ( ) No ( )

(c) Yes ( ) No ( )

Diversification

(a) Has your company closed a branch or withdrawn a service from the market in the last 10 years?

Yes ( ) No ( )

SECTION D: STRATEGIC FIT

2 Do you consider your company's strategic responses to competition adequate?

Yes ( ) No ( )

If not, what else do you feel your c ompany should do to stay competitive?

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3 In your assessment, does your company currently possess the necessary capability to adopt aggressive strategies to match the external environment changes?

Yes ( ) No ( )

If not, please indicate the possible means by which the company can acquire these capabilities..