

**STRATEGIC RESPONSES OF GRUNDFOS KENYA LTD TO ITS  
ENVIROMENT**

**BY  
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## DECLARATION

This project is my original work and has not been submitted for Master of Business Administration research for a degree in any other university.

Signed  ..... Date 11/11/2010 .....

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D61/8815/2006

This project has been submitted for examination of Master of Business Administration research with my approval as the supervisor.

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## **DEDICATION**

This project is dedicated to my beloved wife Joy Busolo for her enthusiasm and moral support during the project undertaking.

## **ACKNOWLEDGEMENT**

This work would not have been possible without the encouragement, moral support and assistance given by my family members, MBA colleagues, lecturers and workmates. Special thanks go to my supervisor Prof. Evans Aosa for his guidance and advice. My appreciations are further extended to all the lecturers of University of Nairobi, School of Business, Dr. Martin Ogutu, Mr Jackson Maalu and others in the school of business for imparting invaluable knowledge to me.

## LIST OF ACRONYMS AND ABBREVIATIONS

CDF.....	Community Development Fund
CSR.....	Corporate Social Responsibility.
EAC .....	East Africa Community
FAS.....	Failure Analysis System
GDK.....	Grundfos Denmark.
NGO .....	Non Governmental Organization
UNICEF.....	United Nations Children’s Fund

## ABSTRACT

The environment in which the company operates is constantly changing and there is need for the organization to adapt in order to survive. The environment is highly dynamic and presents the firm with opportunities and threats. The general business environment has become very volatile, unpredictable and very competitive especially with the opening up of the east African market, many international organizations view Kenya as the business hub for the region. Coping with the competitive environment has called on firms to refine their strategies that match challenges to environment are required.

The objective of the study was to determine the challenges facing Grundfos Kenya and establish the strategic responses to the challenges in the external environment. To satisfy the research objective, the researcher used the case study method. This design was deemed appropriate as the researcher was looking for in-depth information on the strategic responses adapted by Grundfos Kenya to its external environment. Primary data was collected using a structured interview guide which was presented through face to face interview. The respondents were the departmental managers as the researcher was interested in the people who are involved in strategy development in the organization.

The result of the study indicated that there were a number of challenges in the political and legal, social and cultural, economical and technological environments. The researcher also found out that there were various industrial forces that affected the organization. These were local competition and rivalry among the industrial players, threats from the new entrants, threats of the substitutes, bargaining power of

the buyers and the suppliers. Various strategies were adopted by the company to adapt to these challenges and this included; market strategies, product development strategies, pricing methods strategy and community development as a strategy, human resources policies and customer service.

A number of limitations were faced. Foremost, the scope and depth of the study relied on the interview of the Grundfos managers of the various business units. A result of some bias might have been brought up by the sample itself. Since managers were the main focus of the study. In probing the respondent, the researcher might have left out certain variable that could have highlighted the dimension of strategic responses in a more exhaustive manner. It can however be said that the execution of the study was done with great care to minimize the these limitations

The study recommends that Grundfos Kenya ltd should use the strategy of coo petition and cross selling has to be encouraged. The firm should benchmark with other world class organization and not the local companies in the industry in terms of basic salaries and remunerations. Refocusing of the strategic action should be done where opportunities for differentiation, segmentation and competitive advantage have been identified.

The researcher suggests that future in-depth study could be done on a limited number of environmental factors with relevancy to competitive advantage of the firm. Since the company is planning to launch its strategic plan which focuses on realizing cost leadership in the market, it is therefore recommended that another study be carried out to find out the Grundfos market positioning with a view of achieving cost leadership.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background

With the ever changing business environment and adoption of technology by all competing firms, a business needs to react to loss of customers and adapt to the environment for it to stay competitive. Some of the reasons why markets are changing rapidly are that customers develop new needs and wants, new competitors enter the market, new technologies are introduced, changes in the legislation in the country where the companies operates and many more. Many Companies overlook their most competitive advantage i.e. their own quality service delivery systems and processes. A company that responds to the changing environment, offers quality service and whose customers are truly satisfied with its products and services have significant advantage over its competitors. It can command a higher price, its customers are loyal and it has more time to adapt to changes in the market conditions; price, place, product, promotions, technology and competition (Kotler, 1999).

The pump industry has evolved due to factors like technological innovation, government regulation, the service quality improvements, pressure to improve productivity, relaxation of professional association restrictions on marketing, internalization and globalization. This has caused a lot of dynamism in the sector, competition has increased and customers are exposed to more information. Ansoff and Mc Donnell (1990) note that to survive, the companies must differentiate themselves mainly by offering quality service, being as close to the customers as possible and to respond accordingly to the changes in the environment. Having a competent management through integrated managerial structures helps the firm in

execution of its programs. Therefore managers must decide how best to respond to the ever changing business environment, which markets to compete in and on what basis to compete- Price, quality, customer service and product availability.

### **1.1.1 Strategic Response and Business Environment**

A mismatch between the environment and the organization brought about by failure to respond to changes in the environment creates a strategic problem. A strategic problem requires a strategic response. Pearce and Robinson (2003) defines strategic response as a set of decisions and actions that result into formulation and implementation of plans designed to achieve firm's objectives. Porter (1980) notes that organizations need to know the underlying sources of competitive pressure to develop an actionable strategic agenda. Environment in which organizations operate is constantly changing with different factors influencing the organization. The general business environment has become very volatile, unpredictable and very competitive especially with the opening up of the east African market, many international organizations view Kenya as the business hub for the region. Coping with the competitive environment has called on firms to refine their marketing strategies.

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Pearce and Robinson (2003) notes that the organization realized strategies can be as a result of a combination of purely deliberate and purely emergent strategies. The deliberate strategy starts with an analysis of a company's current mission and strategies. The most popular tool used in this process is the SWOT (Strengths, weaknesses, opportunities, threats) model. The external environment in terms of opportunities and threats, is analyzed by examining threats to customers, new applications, unfulfilled customers' needs. The analysis proceeds by examining the company's internal environment in terms of its strengths and weakness. A mission and

competitive strategy is formulated that matches opportunities with strengths and plans are made to strengthen areas of weakness.

The other type of strategic response is what is referred to as the emergent strategies. These are the result of incremental decision making that achieve some degree of consistency over time and launch the organization into a direction. When decisions are made or problems are solved, they have potential strategic impact. In responding to the changes in the environment, more than often organizations are expected to adopt a mixture of the two strategic approaches. (Pearce and Robinson, 2003)

According to Johnson Scholes and Whittington (2003), Strategy is the direction and scope of an organization over the long term, which achieves advantage in changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations. Strategic management is necessary for managing the relationship between an organization and its environment. A good strategy is one that enables an organization to effectively match its capabilities with the environment. An organization therefore has to relate effectively with the environment for survival and prosperity.

The dynamism in the pumping industry currently is posing a major challenge to many companies. To achieve a firm's goal, different level of decision making exist in an organization which works in sync to achieve the overall strategy. These levels are the corporate level, business level and the functional level which form part and parcel of strategy (Kaplan and Norton, 2008). Each level has different requirements as far as strategy and implementation are concerned. Following this background, it's clear that Grundfos K Ltd can only survive if it devices means of coping with the environment.

### **1.1.2 The Pump Industry in Kenya**

Pumps are machines for moving fluids. They do so by converting mechanical energy into fluid or hydraulic energy. For example, electrical pumps convert electrical power input into a fluid power output. The pump industry in Kenya has become one of the most important industries due to the fact that Agriculture is main economic activity in the country and many people are increasingly using water pumps to pump water from the river, borehole or wells. There are many types of pumps which are use which are used in Kenya. This includes the small booster pumps for households, to boost the pressure, the borehole pumps to pump water for the wells and the borehole, boiler feed pumps used in factories for boilers and many others. Most of the borehole pumps are sold in the rural areas whereas the small booster pumps are in major towns in the country like Nairobi, Kisumu, Nakuru, Eldoret, Mombasa where there is very little pressure from the main supply of the council.([www.davliff.com](http://www.davliff.com)).

The main players in the country for supply of the water pumps and the related accessories are Davis & Shirliff Ltd, Biselex Ltd, Agro Irrigation Ltd, Karnataka Pumps Ltd, Majitech Ltd, Hydro water wells Ltd, Rift Valley machineries, Grundfos K Ltd and many other small traders .Most of these traders import the pumps directly from China, India, Germany, South Africa, Dubai as there is no single factory in the country that manufactures water pumps. Some of the models that are sold in the market include; Grundfos, Pedrollo from Italy, Ajax from Australia, KSB form South Africa, India MK Hand pumps from India, Honda Engine pumps from Japan, Davey from Australia and many other models from the far East. Kenya has become very attractive for both local and international players in the pump industry targeting the Eastern and Central markets with Kenya as their base of operation. This has resulted in a cut throat competition among

industrial players and hence the need for the organizations to develop response strategies to cope with the dynamism in the market. ([www.worldpump.com](http://www.worldpump.com)).

### **1.1.3 Grundfos K Ltd.**

Grundfos K Ltd was established in 2005 as one of the sales companies for the Grundfos Group to cater for the needs of the East African markets with the regional offices in Nairobi. Grundfos as a group is known as being the world's leading pump manufacturers. The mother company was established in 1945 by the late Poul Due Jensen with its head office in Denmark. It's a family owned business though controlled by the Poul Due Jensen Foundation. This was established as a self-governing institution in 1975. Today, the foundation owns about 84.5 per cent, staff about 3.4 per cent and the founder's family about 12.1 percent of the shares in Grundfos Holding AG. The aim of the foundation is to consolidate and expand the economic basis of the continued development of the Grundfos Group. ([www.grundfos.com](http://www.grundfos.com))

At Grundfos' Business Development in Bjerringbro, Denmark, there is constant focus on expanding the company's existing business areas and improving the products, e.g. in order to become even more energy efficient. To date, Grundfos group has 50 sales companies, 12 production companies, 11 other brands, 4 management companies, 5 New Business companies and a total of 82 companies in 45 countries. On 1 January 2010 there were 16,100 employees in 45 countries all over the world. ([www.grundfos.com](http://www.grundfos.com)).

Grundfos Kenya Ltd focuses on the design and distribution of water supplies equipment and maintenance of the same. It imports pumps for the client from either

South Africa or Denmark depending on the availability of stocks in, as and when required and as such they don't have a warehouse in Kenya currently. With a Group mission to successfully develop, produce and sell high-quality pumps and pumping systems world-wide, the company has been consistently successful over many years. The fundamental reason for this has been the evolution and pursuit of a consistent strategy that has been widely communicated and effectively applied. The Company's key strengths are the wide product ranges and supply chain both of which are made possible through scale. The company is a one-stop for all pump and pumping system products. ([www.grundfos.com](http://www.grundfos.com)).

## **1.2 Statement of the Problem**

Organizations are environmentally dependant entities and any environmental changes impact to the organization directly hence organizations have to understand the requirements of the environment and to respond accordingly. In the contemporary world, owing to the increasing need for water and its related services, many firms have been established. The firms engaging in business have to contend with the ever changing environment especially the competitive landscape ([www.worldpump.com](http://www.worldpump.com)).

It is in the face of these rises in competition in the water sector, specifically the pump industry, the economic challenges on taxation, duty and the changes in the political landscape that companies need to adopt strategy responses to these changes. High performing firms create strategies which are used to manage strategic positioning in terms of changes in their environments (Colin and Slevin, 1989). Different firms respond in different ways. However, in order to achieve an edge over other firms, strategic decisions need to focus on uniqueness of the response. This may involve strategic changes in the market and product, diversification (Porter, 2006).

Several studies have been done on how organizations have responded to changes in the environment, the motor industry in Kenya (Kombo, 1997); Brewing Industry in Kenya (Njau, 2000); The oil Industry in Kenya (Chepkwony, 2001) and Barclays Bank (Mugweru, 2008). There are various factors mentioned as to have affected the organization and this includes; political landscape of the country, technological advancement in industry, social and cultural beliefs, legal framework for the country which affected the regulations of how the firms operated.

There is a need, therefore to formulate a study on the strategic responses by Grundfos Kenya Ltd to specifically understand the responses that they adapt to the ever changing environment. How has Grundfos Kenya Ltd responded to these challenges?

### **1.3 Objectives of the Study**

This study has two objectives. These are to:

- determine the environmental challenges that affect Grundfos Kenya Ltd
- determine the strategic responses adopted by Grundfos K Ltd in the changing environment in Kenya

### **1.4 Importance of the Study**

The study aims to determine the strategic response adapted by Grundfos Kenya Ltd to its environment. The study will contribute knowledge to the stakeholders in the pumping industry in Kenya, for they would indentify how factors affects the operations of Grundfos Kenya Ltd as well as determining the extent to which other environmental factors affect the operation. For small timers within the industry, the study opens them to better understanding of the entire industry and on possible avenues of expanding their business through establishment of international agencies to boost their scope of operations.



This study forms a foundation for past and current scholars and academicians who would wish to understand or discover other phenomena in the entire pumping industry within Kenya e.g. competitive strength, market share, industry drivers and key success factors among others. This will expand their knowledge in strategic response and identify case for other studies.

To the new entrants in the market this study provides an avenue through which they can establish market entry strategies, while for professional researchers, this study forms a basis for establishing other market peculiarities such as product replacement cycles and service management plans.

The policy makers will obtain knowledge of the pump sector on dynamics and the responses that are appropriate; they will therefore obtain guidance from the study in designing appropriate policies that will regulate the sector.

The study provides global marketers resourceful information on Kenya's industrial business environment and acts as smoke screen for improved products and better positioning. It also ushers in new dawn for product developers who might wish to develop cheap products for the industry at right quality.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Concept of Strategy

It is a unifying theme that gives coherence and direction to the actions and decisions of individual organizations. According to Lynch (1997), strategy is about winning, it is the organization sense of purpose. In an organization, strategy can be used to guide the overall behavior of the firm (Porters, 1980). A good strategy will help marshal and allocate an organization resources into a unique and viable position based on its relation, competences and shortcomings, anticipated changes in the environment and the continent and moves by intelligent opponents.

Strategy guides an organization to superior performance through the establishment of competitive advantages. It reflects a firm's awareness of how it should compete, when it should compete, whom it should compete against, where it should compete and for what purpose it should compete, (Pearce and Robinson, 2003). Normally, organizations have links with customers, Government, competitors, suppliers and to optimize this link, a firm has to come up with a strategy that cannot be duplicated easily and this is the sure way of ensuring superior performances.

Mintzberg (1985) defines strategy as a plan, pattern, position and perspective. Strategy as a plan identifies a conscious intended course of action and is developed deliberately. Strategy as a ploy is a specific maneuver intended to outwit competitors, to threaten them. Strategy as a pattern emerges in a stream of actions and develops overtime. Strategy as a position helps locate an organization in its environment and indicates how the organization will develop a sustainable competitive advantage. Strategy as a perspective gives the organization identity; it reveals the way an

organization perceives the outside world. Strategy is about winning, it give coherence and direction to the actions of an organization.

## **2.2 Organization and the Environment**

The organization is a productive system. It interacts with its environment, drawing certain inputs from the environment and converting these to outputs that are offered to the environment (Porters, 1980). The attainment of its preferred state is dependent on the efficiency with which the firm carries out this production process. The environment is however not static but highly dynamic and continually presents opportunities and challenges. The success and indeed survival of every organization depends on how well it relates with challenges and how it positions itself to the external environment (Pearce and Robinson, 2003).

In order to analyze an organization, it is necessary to establish the relationships between the organization and its environment. The organization's environment is itself a s order system composed of its own subsystems. Peterson and Robinson (1997) describes the external environment as all conditions that affect strategic option but which are beyond the environment are dynamic and include economic, political, technological and social factors. The external factors influence an organization choice of direction and action and constitute the external environment. Porter (1980) argues that the environment shapes how activities are configured uniquely and what commitments can be made successfully. The environment is therefore important in providing insights that underpins competitive advantage.

Globalization, in terms of social, political, economic and technological changes has opened up the economy to fierce competition and has forced firms to make drastic

changes in order to compete, prosper and survive. Such organizations have enhanced their organizations performance through strategic redirection. Ansoff and Mc Donnell (1990) notes that the environment is constantly changing making it important for organizations to continuously adopt their operations in order to survive in this dynamic, turbulent environment.

### **2.3 Types of Strategic Responses**

Managers at all levels must constantly interact in decision making and development of Strategy. A genuine strategy is always needed when the potential actions or response of intelligent opponent or factors can seriously affect the firm's desired outcome of the regardless of the strategic level in the entire organization. Therefore, corporate strategy is in an organization process, it is inseparable from the structure, behavior and culture of the company in which it takes place. To optimize a firms market opportunities, business level managers must generate strategies that relate to the external environment.

The environmental influences relevant to the strategic decision operate in a company industry, the total business community, the city and the country. The environment is full of opportunities and risk often blurred by familiarity an uncritical acceptance of the established relative position of competition. Pearce and Robison (2003) underline Michael Porters five forces of competition framework as part of analysis of an industry competitiveness and profitability. The forces of competition include competition from substitutes, competition from new entrants and that established from rivals. The environment in which an organization operates is always changing. Changes in the business environment and more by competition, erodes competitive position of an organization who in turn respond with countermoves. Johnson and

Scholes (2002), states that the moves are therefore temporary and organizations have to keep re-engineering themselves.

### **2.3.1 Corporate Strategies**

The corporate level consists of board of directors and the executives responsible for the firm's financial and non financial elements like maintaining a good company image. Corporate level strategic managers according to Pearce and Robinson (2003) attempt to explain their firm's distinctive competencies by adopting a portfolio approach to the management of its business and by developing long term plans. Corporate level managers are more concerned with the overall purpose of the organization and how value will be added to the different business unit (Scholes and Johnson, 2002).

In every organization, they define the corporate level strategy to define the mission, vision and purpose for the firm. Before identification of any strategy can occur, one must clearly identify the mission or domain of the organization. The domain of an organization consists of the population it serves and the functions it performs for that population. Sometimes the domain is defined in terms of products or services offered but this tends to be more limiting because it defines the mission more in terms of means rather than ends. Vertical Integration strategy can be used. This normally takes a form of forward or vertical integration strategy. Forward Integration strategy is gaining ownership or control over distributors in the distribution channel. This involves taking over the distributorship in unrepresented areas. Horizontal Integration Strategy involves seeking ownership or control over competitors.

Market Development Strategy involves the marketing of present products often with only cosmetic modifications to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion. Firms practice market development by opening branch offices in new cities, towns, switching from advertising in trade publications to advertising in newspapers or vice versa. Therefore, market development allows firms to form a concentrated growth by identifying new issues for existing products and new demographically, psychographically or geographically defined market. Frequently, changes in media selection, promotional appeals and distribution are used to initiate this approach. (Thompson and Strickland, 1993) Market penetration strategy can also be adopted in seeking increased market share for present products through greater marketing efforts.

Product development strategy involves the substantial modification of existing products or the creation of new but related products that can be marketed to customers through established channels. This strategy is often adopted to prolong life cycle of the current products or take advantage of a favorable reputation or brand name. The idea is to attract satisfied customers to new products as a result of their positive experiences with the firms' offering (Pearce and Robinson, 2003)

Diversification strategy can either be concentric or conglomerate diversification strategy. Concentric strategy represents distinctive departure from the existing base of operation, typically the acquisition or internal generation of a separate business with synergistic possibilities counterbalancing the strengths and weakness of the two businesses. Conglomerate strategy involves a firm acquiring a business because it represents the most promising investment opportunity available. Unlike concentric

diversification, conglomerate diversification gives little concern to creating product–market synergy with existing business (Porter, 2006)

### **2.3.2 Competitive Strategies**

The business level comprises of the business managers who must translate the plans developed at the corporate level into concrete objectives and strategies for their strategic business units (Pearce and Robinson, 2003). According to Scholes and Johnson (2002), a strategic business unit is defined as a part of the organization for which there is a distinct external market for goods and services that is different from another strategic business unit. Business managers strive to identify and secure the most promising segment in a market. Their aim is to identify the most profitable opportunities in the market that would contribute positively to the business.

Cost Leadership Strategies is where you are competing on price. Your various functional strategies all emphasize cost reduction. This is an effective strategy when the market is comprised of many price sensitive buyers, when there are few ways to achieve product differentiation, when buyers do not care much about differences from brand to brand, or when there are a large number of buyers with significant bargaining power (Kotler, 2003).

Differentiation strategies rely on some basis of product differentiation such as flexibility, specific features, service, availability, low maintenance, etc. as the basis for competition. Product development and market research are generally necessary components of a differentiation strategy. Generally, a successful differentiation strategy allows a firm to charge a higher price for its product. Organizations generally need strong Research and development departments with strong coordination between

the Research and development and marketing departments. Human Resource strategies must place emphasis maintaining a competitive skill base and motivating employees toward the basis for differentiation. (Scholes and Johnson, 2002)

A successful focus or niche strategy depends upon an industry segment that is of sufficient size, has good growth potential, and it not crucial to the success of other major competitors. Focus strategies are pursued in limited markets in conjunction with cost leadership and/or differentiation strategies. Focus strategies are the most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment.

### **2.3.3 Functional Strategies**

At the functional level, are the managers responsible for specific product, geographical area and functional areas. They develop short term strategies and their principal role is to implement the firm's strategic plans. Functional managers concern themselves with how the company part of the organization will deliver effectively the corporate and the business level strategies (Scholes and Johnson, 2002). The functional level managers are concerned about "doing things right" that is efficiently and effectively while business and corporate managers concerns themselves with "doing the right thing" effectively. (Porter, 1980)

The functional level strategies are concern with how the organizational functional units contribute to the business level strategies and how the functional strategies can be integrated to achieve competitive advantage. Various strategies exist; Marketing Strategies which is concern with how do we communicate our strengths to the customer and how we identify customer requirements and changes in customer



requirements. The Human Resource Strategies involves recruitment, training, development, motivation, compensation of employees so that behavior is directed toward the competitive strategy and works to build competitive advantage. The Financial Strategies are concerned with securing financial resources necessary to carry out competitive strategy. The Operations Strategies concentrate on designing processes to produce products and/or service that meet customer requirements as specified in the strategy. Each functional unit has its own initiatives as to how it will contribute to the overall goal of the organization. (Kaplan and Norton, 2008).

#### **2.4 Strategic Response Challenges**

Strategic implementation can pose a number of challenges. The challenges arise from sources that are internal or external to the organization. The particular challenges that will face strategy implementation will depend primarily on the type of strategy, type of the organization and the prevailing circumstances in the environment and at the time of implementation. Many challenges in strategy implementation can be avoided if strategy development is coupled with implementation. Involving the key people, especially those who will play a role in the implementation, in the strategy development phase is important so that crucial implementation issues are not left out of consideration during strategy. (Ansoff and Mc Donnell, 1990).

Among the internal sources of challenges, Behavioral challenges such as resistant to change can pose a challenge to the implementation of the strategy. Some ways in which people can manifest resistance is by lack of commitment, absenteeism, disrespect deadlines, poor performance and strike. Inadequacy of resources such as funds, equipment and facilities and human resource skills and experience,

inappropriate systems especially in Structure, Leadership, policies, culture, support system, reward system etc also can be an impediment to the strategic response.(Porter, 2006)

Some of the external impediments which might cause delay are the macro – environmental forces such as the economic forces, political – legal forces, socio – cultural forces, ecological force and the technological forces. Other forces that can play a role in response delays are the industry forces especially the challenges arising from powerful buyers, powerful supplies and stiff rivalry from the competitors. Also, operating environmental forces like pressure arising from the stakeholder’s e.g. creditors, government, local communities, customers and shareholders can impose challenges that could impair and delay strategy implementation .According to Ansoff and Mc Donnell (1990),these challenges can be overcome or reduced through effective communication of the goals, effective reward system, good leadership, allowing participation in strategy development by all stakeholders, adoption of appropriate policies and effective control system during the strategy implementation. Proper planning and understanding of the entire environmental forces can reduce the delays and problems during strategy implementation.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This section sets out the proposed research design, data collection and data analysis methodology to be used in this study in order to meet the study objectives.

### **3.2 Research Design**

This study adopted a case study. This was preferred as the researcher will collect the information and data in order to achieve the objective of the study which is to determine the strategic responses by Grundfos Kenya Ltd to its environment in Kenya and how the environment has affected it. The importance of case study is emphasized by Kothari (1990) and Young (1960) both of whom acknowledged that the case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study. Further, Kothari (1990) states that it's a method of study in depth rather than breath and places and emphasis on full analysis of a limited number of events or conditions and their interrelations.

The case study research draws upon their work and process the following six steps that should be used: to determine and define the research questions, select the cases and determine the data gathering techniques, prepare to collect data, collect data in the field, to evaluate and analysis the data and finally prepare the report. Cooper and Schindler (2003).Therefore, in this study, a case study approach was considered appropriate because of the unique nature of the study.

### **3.3 Data Collection**

The primary source of data collection method to be used was the interview method. A detailed structured interview guide was designed to collect general information and provide answers to the research question. According to Frankfurt (1996), there are three methods of gathering primary data. These are the mail questionnaire, personal interview and telephone interview. However, given the size of the population, the appropriate method of collecting data was by personal interview. The Interview guide consisted of parts A, B, C, D E and F. Part A collected data on the personal attributes of respondents, Part B focused on organization assessment, Part C dealt with the external environment that have affected Grundfos K ltd, Part D specifically dealt with competitive environment and lastly part E focused on the strategic responses employed by Grundfos K ltd in its external environment in Kenya as discussed in parts B, C and D.

The target population for the study was the General Manager and the ten key heads of functions; Sales Manager, Marketing manager, Human Resources manager, Legal officer, Business Development manager, Operations manager, Finance manager, Supply and Logistic manager, IT Manager and the Research and Development Manager. The study targeted these employees since they are fully involved in decision making regarding what response to adopt in a given situation. It is believed that the general manager and the heads of functions will give the required information for the purposes of this study. The respondents were ten in total. The interview guide was administered by face to face interview since they are all located in the same building. As part of the secondary data collection, the researcher used the company annual reports.

### **3.4 Data Analysis**

The data collected was analyzed using content analysis, in accordance with the objective of the study. Before processing the data, the interview guide was checked for completeness and consistency. Content analysis is the analysis of contents of documentary material such as books, magazines, newspapers and contents of all other verbal materials which can either be spoken or printed Kothari (1990). According to Mugenda and Mugenda (2003), Content analysis is the qualitative description of the composition of the object or material of study .It involves observation and detailed description of objects, items or things that comprise the sample. This technique uses a set of categorization for making valid and replicable inference from the data collected.

Content analysis was used considering the qualitative nature of the data to be collected through in depth personal interviews. The data was broken down into the different aspects of strategic responses and arranged into logical groups and analyzed. This offered a systematic and qualitative description of the objectives of the study. The data was then evaluated to determine its accuracy, credibility, usefulness and consistency. Content analysis measures the semantic content or the 'what' aspect of the message. Its breath makes it flexible and wide ranging tool that may be used as a methodology or as a problem specific technique. It also guards against selective perception of content, provides vigorous application of reliability and validity criteria it does not restrict the respondent on answers and it has potential of generating more detailed information (Cooper and Schindler, 2003)

# **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS**

## **4.1 Introduction**

This chapter discusses the findings of the study based on the analysis and the interpretation of the primary data collected from the senior managers at Grundfos Kenya Ltd. It analyses the data in line with the research objectives which were to determine the environmental factors that affect Grundfos K Ltd and to establish the strategic responses adopted by firm in the changing environment in Kenya. The study respondents were 10 in number and the findings focused on the themes; challenges and strategic responses as presented.

## **4.2 Respondents Profile**

This section sought to establish the personal attributes of the respondents in order to determine their effect on the business. These included the position, age range, duration of service and gender.

### **4.2.1 Job Position and Education Level**

The respondents were asked to indicate their occupation and the results analyzed. The study revealed that the organization placed a lot of emphasis on team work and all the major functions of the business, sales, marketing, Information technology, legal, business development, operations, Finance, supply and logistics, research and development and human resource had departmental heads that represented the views of the different business units in the management meetings.

All the 10 respondents interviewed had at least a university degree. This information indicates that the company employs staff with the right level of qualification of education for management of the various business units.

#### **4.2.2 Age and Gender of Respondents**

The researcher felt that age was a factor in social groupings which is essential for implementation of strategies and working in a competitive environment. The respondents were asked to indicate their age brackets and the results analyzed. The results showed that 80% of the respondents are in the age bracket of 31 – 40 years and 20% were in the age bracket of 41-50 years. The management team at Grundfos Kenya is relatively young and this is necessary because of the time required for the managers to implement all their strategies should they remain within the industry for a longer time in the company. The result shows a good blend of experience and passing over of the specific skills to the young managers thus creating balanced service offering.

The researcher wanted to establish if there was a gender balance within the company and as a result the respondents were required to indicate their gender. It was found that 80% of the respondents were male. This indicates a high level of gender imbalance as there were fewer female managers than male managers. These results are attributable to the fact that the pump industry employs mostly engineers and the majority of engineers are male. This profession does not favor female managers.

#### **4.2.3 Duration of Employment**

The researcher sought to find out the employee retention in the company and as such the respondents were asked to indicate the length of service with their current employers. This is due to believe that employee's retention is a key to effective

strategy implementation. It was evident that 100% of the managers have been with the company for more than one year. This indicates that Grundfos Kenya is a good employer and satisfies the needs of the employees. Also, the retention is an indication that the managers stay long enough in the organization to implement all the plans and strategies that they have set forth.

To ensure a competent and motivated staff, Grundfos attaches great importance to training. Specialist training and a high level of training activity are evidences of this. The employees are educated at the Poul Due Jensen Academy in Grundfos Denmark (GDK) as well as at Grundfos' training centre in Bjerringbro, at an industrial school in Bjerringbro or at other training schools across the country. This has improved the employee retention ([www.grundfos.com](http://www.grundfos.com))

### **4.3 Environmental Challenges Facing Grundfos Kenya Ltd**

This section sought to establish the challenges facing Grundfos Kenya Ltd in its business environment. The challenges were categorized into political and legal, social and cultural, economical and technological challenges and competition within the industry as presented.

#### **4.3.1 Political and Legal Challenges**

The study found out that the current political stability in the country favored business development and investor confidence in the industry. This posed a challenge as many investors were looking into the country for investment and hence increasing competition. Geographically, Kenya is strategically positioned as the business hub for the continent and this has also attracted investors. The international trade is also posing a challenge as the government has no control on the imports especially from the Far East which due to the relatively low cost of production, the products are



landed in Kenya cheaply. The researcher found out that the government is not keen to regulate the competition in the pump industry and as such the company is faced with stiff competition from both local and international players in the industry.

The government does not enforce contract laws to protect the consumers. The customers are exposed to all sorts of products in the market and as such they go for the cheaper options available which in many cases are imitations for Far East. The employment law in Kenya also limited the skilled immigrants with temporary permits to work in the country. This has forced the organization to hire locals and spend a lot of money in trainings both locally and abroad. However, it was noted that the country has opened its borders to the EAC and this meant that the market size for the products was increased though with a challenge of competition from companies in the other countries like Uganda, Tanzania.

#### **4.3.2 Economic Challenges**

The researcher sought to establish the economic challenges that the company faces. The study revealed that the taxation policy in the country is a hindrance to the development of the pump industry. The respondents indicated that there is double taxation on the pumps and related accessories. The company was being charged 40% of its earnings before interest and also the products were subjected to a 16% valued added tax. This meant that the company had to factor in the costs hence making the prices unattractive. The researcher found out that the banks interest rates were relatively high at 12% which meant that it was expensive for the company to borrow money for expansion. This limited the growth of the company especially in research and development of new products.

The fluctuation of the exchange rate was a major setback for the company. The respondents indicated that at times the exchange rates fluctuate by more than 5% and as such they cannot afford to pass on the cost to the customer since they develop annual price list. This meant that the margins were greatly affected. The inflation rate was also a concern to the respondents who indicated that the price for the pumps and related accessories have been going up in the last 5 years and the customers were being forced to get alternative products as they cannot afford.

The government spending in the industry has been reduced considerably due to the cases of corruption. The study revealed that most of the funding sets aside for the projects were being diverted to other use. This had a negative impact to the company as when the government spending is not well controlled, it affected the country as a whole since there was no cash flow. The rate of unemployment in the country was also a challenge to the company as many people are living below a dollar a day. This was a problem as the buying power of the would be customers is considerably reduced.

Consumer confidence in the Grundfos product was low due to relatively high prices compared to the other similar products for Far East. The respondents indicated that the Kenya market is a price sensitive market and the customers were not willing to spend more on the products and preferred products which were slightly cheaper. The Company was at the growing stage of the business cycle which meant that there was a lot of pressure financially on the company to invest in additional infrastructure to cope with the expected growth. This was a problem as more of the retained earnings for the company were tied up and since other sources of capital were limited, the only

option was to increase the prices to generate more revenue thus positioning the company as an expensive option.

#### **4.3.3 Social and Cultural Challenges.**

The study sought to find out the social and cultural challenges that affect the company. The study revealed that the income distribution in the country was not balanced. Geographically, there were areas in the country like North Eastern where the residents only depended on donors for support with very little income generating activities. Also, it was found out that the gap between the rich and the poor in the country was huge. This posed as a challenge to the company as it had to be very careful in its expansion program hence limiting the strategic growth plans to develop scale as a competitive advantage.

There was relatively little knowledge in the pump industry. The curriculum in the tertiary institutions in Kenya was not putting more focus on the pump technology and as such there was relatively low interest among the students in developing their careers in the pump industry. The company has had to make a compromise and spend enough time training the staff. The study also revealed that there was laxity among the staff to relocate and work in other remote areas as they preferred working in Nairobi, which is a challenge to the growth and expansion of the company in terms of branch networks.

The researcher also sought to establish how the demographics, population growth rates affected the Grundfos Kenya business. It was revealed that an increase in the population had a direct effect on the water requirements for the areas and hence need for more pumps. However, there are some areas especially the slum areas like Kibera

where the population buying power is relatively low. This meant that the organization had to spend a lot of time to study the locations before appointing distributors and stockiest for the pumps. This was considered as a challenge due to the opportunity cost as this was slowing the pace of growth in order to remain competitive.

#### **4.3.4 Technological Challenges.**

The study sought to establish the technological challenges the organization faces. It was revealed that there was little government involvement in research for new and improved technologies in the pump industry. This was a challenge to the organization as it had to spend millions of shilling in research and development which meant that they had to sell the product at a premium price hence not being competitive in the market. The respondents indicated that the pump industry was not keen on new inventions and developments as there was no focus on improved technologies. The market was rigid to new technologies as this meant the customers had to pay more. This forced Grundfos Kenya to set up a research and development team.

The study also sought to find out the rate of technology transfer in the country and it was revealed that the new innovations are only concentrated in the urban areas. This was a major challenge to the company as there was need to create more market awareness in the country which meant more money to be spent. The respondents also indicated that there is a relative increase in the use of internet and mobile technologies which increased the competitive pressure on Grundfos Kenya Ltd due to the fact that customers were able to search for similar product on the internet and compare price making the world a global village.

#### **4.3.5 Local Competition and Rivalry**

The researcher sought to find out the level of local competition and rivalry in the pump industry in which Grundfos Kenya operates. The respondents indicated that the intensity of rivalry was cutthroat as the organizations were competing to gain competitive advantage by lowering their prices though this was reducing the profits considerably. The intensity of rivalry was attributed to a larger number of firms in the industry competing for the same market and the slow market growth which caused the firms to compete for the same customers, resources and market share control. The study also indicated that the low switching costs and low levels of product differentiation increased the rivalry. The respondents felt that customers could freely switch from one product to another and there was a greater struggle to capture customers.

The study found out that there was a diversity of cultures, histories, and philosophies among the organizations and this made the pump industry unstable since rivalry was volatile and intense. The respondents indicated that the strategic stakes in the industry were high for firms to lose market position or have greater gains if they have competitive advantage which also intensified the rivalry. The high exit barriers in the industry also placed a high cost on abandoning the business which meant that firms must compete and remain in an industry, even when the venture is not profitable which intensified rivalry in the pump industry which put a lot of pressure on Grundfos Kenya to be more competitive.

#### **4.3.6 New Entrants in the Market**

The study sought to establish the challenges that Grundfos Kenya faces with the threat of new entrants into the market. The respondents indicated that it was not only

incumbent rivals that posed a threat to the firm but also the possibility that new firms may enter the industry also affected the competition. The industry was profitable and had stable growth which forced additional firms both locally and internationally to venture into the business. It was found out that there were no barriers to entry in to the industry as the government had not put stringent policies and regulation to govern and restrict competition.

The researcher found out that there were no patents and proprietary knowledge to restrict entry into the industry as all the players were importing the pumps from Far East, Europe Dubai or South Africa and there were no restriction. This meant that it was very easy for even smaller company with little overheads to compete with Grundfos Kenya since they had low overhead costs, easy access to the distribution channels and the industry used a common technology which intensified the competition.

#### **4.4 Strategic Responses adopted by Grundfos Kenya Ltd**

The other objective of the study was to determine the strategic responses adopted by Grundfos Kenya to the changing environment. The strategies were as presented.

##### **4.4.1 Market Strategies**

The study sought to understand the way Grundfos Kenya was responding to the changes in the market. The company focused on market development as one the strategies. A lot of money was spent in the market to develop the required expertise in the pump industry with a view of increasing the footprint in the region. The level of expertise is important for any organization that is keen on developing a market. Training for the service providers, stockiest, Engineers in the manufacturing

industries, Consultants were organized to develop the technical understanding in the product knowledge and the soft skill required for to sell the products.

Market segmentation was another strategy used. This refers to the grouping of customers depending on some unique characteristics which may be products, geographical location, volume of business, type of business. The researcher also found out that the firm had grouped customers into; NGO's, manufacturers, consultants, distributors and stockiest, Government institutions, water boards, CDF and agriculture institutions and firms. This enabled the company to specifically focus on the groups and each had specific need. Focused strategies on how to develop the segments were also done and various activities like the horticultural show, open day for agricultural firms, luncheons for NGO's were organized where specific products, support and initiatives for the groups were discussed.

Market penetration was also adopted since there was need to established distribution channels for the products. The company head office is in Nairobi and they had developed a well elaborate channel of distribution in the market. Distributors were appointed in major towns in the country and this meant that the products were available in all the major towns. Various promotions we carried out like trade exhibitions in towns that had little Grundfos presence, road shows were organized to create more awareness, product leaflets were distributed to various places to generate interest. These market strategies worked very for Grundfos Kenya as its regional reach was greatly increased and enabled it to compete favorable and adapt to the ever changing environment.

#### **4.4.2 Product Strategies**

Product development was a strategic response undertaken by Grundfos which involved replacing of the existing products with new ones through innovation and product improvement. Some of the products launched include the Grundfos SQFlex pump which is a borehole pump powered by renewable energy. As the name indicate, the pumps intelligent and flexible as it has inbuilt control and is able to use generators, solar, wind and electricity. This was a major initiated undertaken by Grundfos targeting the marginalized communities. The development ensures that the company stays ahead of the technology and improves the products differentiation and improving features and the product itself.

The study found out that the organization also maintained a high standard as far as the product quality was concerned. Grundfos name was synonymous with quality in the market. The company had also introduced different levels of products quality targeting different clientele base. The prime products targeted the relatively rich and the people who had money to spend and the poor were targeted by different products which were of slightly superior quality that the products from the Far East. The Kenyan market was price sensitive and as such the company had to adopt accordingly and have both superior and low quality products.

Product availability was also a competitive strategy adopted by Grundfos. The company ensured that they have all the products they need at the central store and were able to monitor the reorder levels and liaise with the sales team to forecast any need in the market. This ensured that customers always had the products they need and should the units be less, the lead time were lower as they had a relatively efficient supply chain. The company had also invested in a large warehouse where they



stocked the pumps. This differentiated them with other players in the industry who had to order for the pumps from Dubai every time they received an order.

Product diversification and selling of adds on was another strategy adopted. The company being known for the supply of pumps had introduced all the necessary fittings and switch gears like control panels to be able to offer a complete solution to the customers. No company in the industry that the respondents' were aware of could do this in the country. This differentiated the firm as it was a one stop shop as far as water supply was concerned. The new line also generated more revenue and improved the cash flow of the company. It was clear that the different product strategies were working well for the Grundfos Kenya.

#### **4.4.3 Pricing Policy Strategies**

Pricing methods was a strategy adapted by Grundfos to its competitive advantage. The products are highly priced and as such the company was losing a market share to the competitors who imported pumps and accessories from Dubai and Far East. The company had taken a strategic shift by introducing low priced products for a given level of quality to compete with the Chinese counterparts. The management of Grundfos Kenya decided to firm sells its products below the average industry prices to gain market share. This was targeting the mass market. Project price was also used in some cases where the companies price the products at Cost plus a small margin say 20% to win the tenders in projects. These changes in prices by raising or lowering were to gain a temporary advantage. Introductory offers was also used

Discount structure was also used as a strategic tool to gain advantage. Each customer groups had different discounts on the products for example the drillers were given the highest discount on borehole products since they use the products a lot. Plumbers were given a higher discount on the fittings and booster pumps. This ensured that the customers are matched to the product they use and special prices given to enable them enjoy a high margin and develop their business. It was clear that the company used pricing policy as a strategy as it was very flexible depending on the project and the case at hand, which enable it to respond to different challenges of competition.

#### **4.4.4 Customer Service**

The company offered free consultation and diagnostic service for the pumps should the pump fail. The respondent indicated that the customers were confident of the product since incase of any problem with the pumps they would bring it back to Grundfos for free check and recommendation for parts replacement. The company also had in stock the parts for all the products it sells. This generated more revenue for the organization.

Warranty terms were also used as a strategic tool. Most of the players in the market were not able to give warranty on their products. Those that did were not able to honor as it was a cost to the organization. Grundfos Kenya had a clear standard warranty terms which was used for replacing of products that are defective within 1 year from the date of purchase. These were in two forms; replacing of the product under warranty or repairing the product on warranty, depending on the extent of damage. This service differentiated the organization from its competitors in the market.

#### **4.4.5 Human Resource Policies**

The study found out that Grundfos Kenya has been hiring qualified and highly skilled personnel to ensure that this remains a key strength for the organization. The company hired a consultant to conduct interviews for the organization and select the best among the list offered to the human resources department. This ensured that they hire the best in the country to propagate the organization strategies and development goals.

Continuous staff development was a strategy used to enhance training and development of the staff. The employee were given staff loans to enroll in courses that would benefit the organization. Company training was also done in the training school for more specialized courses in pump technology. Talent management and career mapping for staff is also undertaken at Grundfos Kenya where the human resources department identifies, develops, monitors and retains talented individual who have potential to become future leaders in the company.

Incentives for the staff were also used to retain them in the organization .Several incentives included, Bonuses and commission to reward excellence performance to employees who meet the set targets thus increasing motivation, staff loans, mortgages , car loans, benevolent fund when bereaved were used. The industry is starved of expertise and experience, hence the need to ensure employee retention is actualized. This offered a competitive edge to the company as other small players in the industry could not match the benefits that the company was giving its employees.

#### **4.4.6 Community Development**

Community development was used by Grundfos Kenya as a strategy to increase its competitive advantage in the country. The company was involved in CSR activities where it gave back to the community in terms of donations. This has helped in creating a good relation with the community it is working for and thus attracting customers to also seek their products. For instance the company supported UNICEF towards sinking of twenty five boreholes in North Eastern province to cater for the water needs of the community and in return UNICEF entered into a long term supply contract with the company for all its water related equipments.( [www.unicef.org](http://www.unicef.org))

The company has offered training to form four drop outs who are interested in developing their career in the pump industry. They would in term become service providers in the country and are not directly employed by Grundfos as some of the student ended up in the competition. These build the level of expertise in the market and encouraged healthy competition. Also the students' would specify Grundfos products as they were more loyal to them. The company used this as a strategy to penetrate markets and develop long term relations which offered a competitive edge over the competitors.

#### **4.4.7 Information and Communication Technology**

Information and communication technology was adapted as a strategy to increase efficiency and effectiveness. They had developed an intranet for other employees to be able to share the information within the organization and made it easier for the organization to conduct E trainings as some of the employees were remotely located. The extranet was for the customers to access some unclassified information like the

product availability, technical reference and their account status. The organization saved a lot of money as a result of these strategies.

The email system in the company also enhanced communication. All the sale team had black berry phone that enabled them to access emails while away from the office which fastened communication. The company also used web based enterprise resource software which enabled the sale team to sales team to access the information on the phone and even raise requisition for products and generate invoices while away from the office. This had clearly differentiated the way Grundfos Kenya conducts the business and improve and efficiency and effectiveness a great deal which resulted in cost savings, thus having a competitive edge over the competitors.

#### **4.5 Discussion of Results**

This section sought to discuss the findings of the study, This has been done in two sections by a comparison to other studies done and a comparison to the theories available on strategic response.

##### **4.5.1 Comparison to other studies**

Several studies have been done on how organizations have responded to changes in the environment, the motor industry in Kenya (Kombo, 1997); Brewing Industry in Kenya (Njau, 2000); The oil Industry in Kenya (Chepkwony, 2001) and Barclays Bank (Mugweru, 2008). There are various factors mentioned as to have affected the organization like political landscape of the country, technological advancement in industry, social and cultural beliefs, legal framework for the country which affected the regulations of how the firms operated

Mugweru (2008) studies the strategic responses of Barclays bank of Kenya limited to challenges in the external environment. He noted that the bank has had to change the way it's operating by focusing on staff training to develop expertise, reduce the focus market and develop other products that suits the mass market. This was a key strategic response to the competitive environment in the banking industry for the company.

This study also shows that Grundfos Kenya Ltd is faced with similar challenges in the external environment and there is a need, therefore the need for the company to adapt various strategies that will ensure that it remains competitive in the market and also survive in the ever changing environment.

#### **4.5.2 Comparison to Theory**

The organization is a productive system. It interacts with its environment, drawing certain inputs from the environment and converting these to outputs that are offered to the environment (Porter, 1980). The attainment of its preferred state is dependent on the efficiency with which the firm carries out this production process. The environment is however not static but highly dynamic and continually presents opportunities and challenges. The success and indeed survival of every organization depends on how well it relates with challenges and how it positions itself to the external environment (Pearce and Robinson, 2003).

Grundfos Kenya Ltd faces many challenges in the business environment. The political stability in the country and the geographical position attracted many competitors. The double taxation policy and the high bank rate ([www.kenya-advisor.com/kenya-revenue-authority.html](http://www.kenya-advisor.com/kenya-revenue-authority.html)) fluctuation of the currency, low government spending posed a

challenge to the company. Lack of employment, imbalance in income distribution, low knowledge in the pump industry and relatively low government spending in the research and development in the pump industry were a hindrance to the growth and competitiveness of the company. ([www.nationalwatercompany.com](http://www.nationalwatercompany.com))

This direction, or mission, may be the result of a deliberate planning process or it may emerge as the result of a set of incremental decisions.(Bobby and Paton, 1998) It was evident that the company had clear directions. According to Thompson and Strickland (1996), core competencies in key area are vital for success in any organization. The occupation balance is very critical in managing of the organizations. The relevant mix of the technical and support departments plays a big role in the success of the organization. This is very essential given the dynamic environment in which the company operates and the need to develop new strategies to keep up with the changing environment. Since 100% have the required education, they are capable of executing response strategies within their capabilities in the industry.

A lot of money was spent in the market to develop the required expertise in the pump industry with a view of increasing the footprint in the region. The level of expertise is important for any organization that is keen on developing a market (Kotler and Armstrong, 2000). The company also segmented the market. According Quinn (1980) 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. However, firms pursuing a

differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist. 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.

Porter (1985) indicates that the generic strategies are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, in this attempt it may achieve no advantage at all. For example, if a firm differentiates itself by supplying very high quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image. He argued that firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating the strategies into different units having different policies and even different cultures, a corporation is less likely to become "stuck in the middle." However, there exists a viewpoint that a single generic strategy is not always best because within the same product customers often seek multi-dimensional satisfactions such as a combination of quality, style, convenience, and price. There have been cases in which high quality producers faithfully followed a single strategy and then suffered greatly when another firm entered the market with a lower-quality product that better met the overall needs of the customers.

According to Kotler (1997) some of the ways that firms acquire 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. A product's price elasticity is affected by substitute products .As more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices. The competition engendered by a threat of substitute comes from products outside the industry. (Kotler, 2003),

Grundfos Kenya used customer service as a way of differentiating itself from other players in the market. A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customer perceive to be better than or different from the products or services of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. Firms that succeed in a differentiation strategy often have access to leading scientific research, employs a highly skilled and productive development team, strong sales team with the ability to successfully communicate the perceived strength of the service and products, and finally corporate reputation for quality and innovation. (Schendel and Hofer, 1979). These are the attribute that differentiated Grundfos Kenya and enabled it to foster customer loyalty

From the foregoing, its clear that a mismatch between the environment and the organization brought about by failure to respond to changes in the environment creates a strategic problem. A strategic problem requires a strategic response. Pearce and Robinson (2003). Organizations need to know the underlying sources of competitive pressure to develop an actionable strategic agenda. Environment in which organizations operate is constantly changing with different factors influencing the organization. (Porter, 1980)

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## **5.1 Introduction**

This section chapter provides a summary of the study findings, conclusion from the study, limitation and the recommendation for policy and practice. It concludes with the suggestions for further studies.

## **5.2 Summary of Findings**

The overall purpose of the study was to determine the challenges faced by Grundfos Kenya and to establish the strategic responses adapted by the organization to cope with the challenges in the environment.

### **5.2.1 Environmental Challenges faced by Grundfos Kenya Ltd**

One of the objectives of the study was to determine the environmental factors that affect Grundfos Kenya in its business. The study revealed that the company faced challenges in the political and legal, economical, social, technological environments. The political stability in the country and the geographical position attracted many competitors. The double taxation policy and the high bank rate, fluctuation of the currency, low government spending posed a challenge to the company. Lack of employment, imbalance in income distribution, low knowledge in the pump industry and relatively low government spending in the research and development in the pump industry were a hindrance to the growth and competitiveness of the company.

The other challenges were in the competitive environment. The forces in the industry that were a challenge to the company were local competition and rivalry, threat of the new entrants in the market, threats of substitute, bargaining power of the customers

and the suppliers. The competition in the industry was cut throat as there were relatively many player since the industry was growing at a fast rate. The attraction of the new entrants to the market both locally and internationally increased completion and was pushing prices down and reducing the profits. The market is dynamic and Grundfos Kenya faces so many challenges which it must overcome.

### **5.2.2 Strategic Responses adopted by Grundfos Kenya Ltd**

The other objective of the study was to determine the strategic responses adopted by the company to cope with the changes in its external environment. The findings indicate that Grundfos Kenya has focused on several market strategies. This included market segmentation initiatives, market development and penetration which enable it to have products in various towns in the country. Grundfos Kenya main product was the pumps. The study found out that it adopted several product strategies for it to remain competitive. This includes product development where it spent millions of shillings in research and development on improved technologies and quality. It had invested in a warehouse to ensure product availability in the market and had diversified by offering all the related accessories like fittings and other adds on.

The organization adopted a flexible pricing policy as a strategy to remain competitive. It adapted different prices depending on the case in point and had a well structured discount policy which was segment based. The company differentiated itself by offering world class customer service and ensuring spare parts availability. An organization is as good as its people. The human resource policies were used as a strategy to ensure that the company hires the best in the market, develop them and retain them. Grundfos Kenya also used community development as a strategy to develop the marginalized markets though donation and this enabled them to penetrate

the regions. Finally, the organization invested a lot in the information and communication technology to improve its efficiency and effectiveness. Its evident that the organization had in place strategies to adapt to the challenges in the environment.

### **5.3 Conclusion**

The objectives of the study were to determine the challenges faced by Grundfos Kenya Ltd and establish the strategic response adapted by the organization to the challenge in the environment. The two objectives the study sought to meet were achieved. The study concludes that Grundfos Kenya Ltd has experienced various challenges in both internal and external environment and it has undertaken varying strategic responses to counter the challenges experienced.

Further study indicates that there is still need for Grundfos Kenya to continually refocus the strategic actions to fully match the environment in which it operates and encourage cross selling where a client is introduced to other products which they never were interested in.

### **5.4 Limitation of the Study**

Foremost, the scope and depth of the study relied on the interview of the Grundfos managers of the various business units. A result of some bias might have been brought up by the sample itself. Since managers were the main focus of the study, they might have viewed this as a performance appraisal and thus give some fairly unreliable results.

In probing the respondent, the researcher might have left out certain variable that could have highlighted the dimension of strategic responses in a more exhaustive

manner. It can however be said that the execution of the study was done with great care to minimize these limitations.

### **5.5 Recommendation for Policy and Practice**

After a careful analysis of the findings the researcher recommends that Grundfos Kenya Ltd should use the strategy of coo petition where it will be selling to the competitors in the market. The pricing level should be decided upon to discourage them from importing directly as this will reduce competition and increase their markets share. The firm should benchmark with other world class organization and not the local companies in the industry in terms of basic salaries and remunerations. Currently Grundfos is the best paying company in the pump industry but it may loss staff to other industries like the petroleum and manufacturing if it does not change the pay policy.

Technical capacity in the pump industry is still relatively low. The company should consider engaging the tertiary institution of learning in the country to introduce a course in Pump technology. Due to the emerging shift in consumer preference, the company should register another outfit to sell the low quality products and remain with the prime product. Grundfos was synonymous with quality and the low quality products will affect the perception of the customer and more so confuse the sales engineers as to which product to offer.

Refocusing of the strategic action should be done where opportunities for differentiation, segmentation and competitive advantage have been identified thus concentrating effort on specific customers and specific products, relating the two closely and coming up with appropriate product and service packages. Finally, cross

selling strategy has to be encouraged where a customer using a particular product is introduced to other products and services within the company. This will generate more revenue and improve customer loyalty.

### **5.6 Suggestion for Future Research**

This research was broad as it dealt with strategic responses by Grundfos Kenya to its environment. The researcher suggests that future in-depth study could be done on a limited number of environmental factors with relevancy to competitive advantage of the firm. Studying specific environmental elements in detail could provide more insights and explore new information regarding the challenges experienced in the pump industry and the strategic responses.

The company is in the process of planning to launch its strategic plan which focuses on realizing cost leadership in the market, it is therefore recommended that another study be carried out to find out the Grundfos market positioning with a view of achieving cost leadership.

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## APPENDIX 1: Letter of Introduction

University of Nairobi  
School of Business  
P. O. BOX 30197  
Nairobi

Dear Respondent,

### **REF: REQUEST FOR INTERVIEW**

I am a post graduate student at the University of Nairobi, faculty of commerce. In partial fulfillment of the requirements for a marketing research, I am conducting a study entitled "Strategic responses of Grundfos Kenya Ltd to its External Environment". For the purpose of completing my research, I wish to conduct an interview in order to collect data through the attached Interview guide. I shall be grateful if you would kindly allow me to interview you at a time of your own convenience.

This information is purely for the purpose of my research and we pledge that the information provided shall be treated in or with strict confidentiality. A copy of the final research report will be availed to you upon request.

Thank you for your cooperation.

Yours Faithfully,

George M. Masaba

Prof. Evans Aosa  
**Supervisor**

## APPENDIX 2: Interview Guide for Respondent

### PART A: PERSONAL ATTRIBUTES

1. Job position \_\_\_\_\_
2. What 's your highest level of education
  - University/college [ ]
  - Diploma holder [ ]
  - Secondary [ ]
  - Non formal education [ ]
4. What's your age bracket
  - 20-30 years [ ]
  - 31-40 years [ ]
  - 41-50 years [ ]
  - Above 50 years [ ]
5. Gender Female [ ] Male [ ]
6. How long have you been with the current employer?
  - Less than 1 years [ ]
  - More than 1 year [ ]

### PART B: ORGANIZATION ASSESMENT

1. Does the company have a clear Mission and Vision statement (Written or Unwritten)?  
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2. Do you think the company has defined its core objectives and markets in which it will operate?

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3. How is the culture of the organization and the management practice aligned to the strategic objective of the firm?

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4. Are there any challenges that the organization faces internally? (Think of Human resource, IT Systems, Finance, Research and Development, marketing, Service etc)

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5. In your own opinion, what is the key strategic thrust for the organization?

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### **PART C: ENVIROMENT ASSESMENT**

6. In your own opinion, how do you think the Political and the legal environment has affected the business? (Think of Tax policies, Employment laws, Environmental regulations and protection, Internal trade regulations and restriction, Government attitude, Political stability, safety regulations, competition regulation, Contract enforcement and consumer protection )

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7. How has the Economic environment affected the business? ( Think of Economic growth rate, interest rates, Monetary policies, Government spending, Unemployment policies, Exchange rates, inflation rates, Stage of business, consumer confidence)

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8. Has the social and cultural beliefs of the region affected the business? (Think of income distribution, Population growth rate, age distribution, labour /social mobility, Lifestyle changes, education levels, fashion hypes, living condition)

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9. Any Technological issues that have affected your firm? (Think of rate of technology transfer, new innovation and technology, industry focus on technological efforts, research expenditure)

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**PART D: COMPETITIVE ENVIROMENT ASSESMENT**

10. In your own opinion, what do you think has been the effect of the local competition in the pump industry?

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11. Have you faced any threats as a result of new entrants in the market?

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12. What about the threat of substitute products by other players in the industry?

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13. What's your comment on the bargaining powers of your suppliers?

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14. Has the bargaining power of your customers affected your business ?

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**PART E: STRATEGIC FOCUS**

What's the company direction as regards to:

15. Market? (think of development, segmentation and penetration, focus on people, promotions)

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16. Product? (think of product development policies, quality, availability)

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17. Price? (Do you apply the same price level across the board)

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18. Customer service?

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***THANK YOU FOR YOUR TIME AND ASSISTANCE.***