THE IMPACT OF THE BLUE OCEAN STRATEGY ON THE PERFORMANCE OF BAMBURI CEMENT LIMITED IN KENYA

BY

COLLINS KIPCHUMBA KIPTOON

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DECLARATION

This research project is my original work and has not been presented to any other university for academic purposes.

Signature: ……………………………………….. Date: ………………….…………….

Collins Kipchumba Kiptoon

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This project has been submitted for examination with my approval as the university Supervisor.

Signature: ………………………………….……….Date: ……………..………………….

Mr. Jeremiah Kagwe

Lecturer

School of Business

University of Nairobi

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My deepest gratitude is, first and foremost, due to the infinite God, who through inimitable wisdom established creative systems and immutable laws through which man could aim to pursue his highest aspirations and fulfil his deepest potential.

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With sincere gratitude and appreciation, I would also like to acknowledge my dear wife, Sarah, and son, Martin, for showing the patience and understanding during the most intensive phases of this research project. May your vision and horizon ever expand to match you limitless potential.

DEDICATION

This report is dedicated to all devoted parents, whose relentless sacrifices and boundless love, released in their children the creative potential and energy that has become truly essential in the 21st century and beyond.

ABSTRACT

The visionary companies of the 21st century possess unique strategic capabilities that enable them to achieve superior organizational performance by continually challenging and expanding their industry boundaries. These organizations do not merely benchmark against competitive standards with the goal of outperforming existing competitors, they reconstruct market boundaries by developing distinctive value innovations that advance superior customer value and consequently increase organizational value. The blue ocean strategy postulates that companies can create new growth opportunities by shifting focus from strategies aimed at outperforming or beating existing competition, to strategies targeted at developing uncontested market spaces with expansive boundaries and potential. These strategies seek to render existing competition irrelevant by creating new demand. It is against this strategic focus that this study sought to determine the impact of the blue ocean strategy on the performance of the leading cement producer in the East African region. The study relied on both primary and secondary data to determine the relationship between the blue ocean strategy implemented by Bamburi Cement Limited and the performance of the company over a fifteen year period. Interviews with the company's top management revealed that the value innovations developed and implemented eleven years earlier had indeed pushed the company's performance to new heights. The study established that the aggressive implementation of new value innovations did strengthen the organization's strategic position. Nevertheless, it was also determined that whereas the blue ocean strategy did enhance the organization's growth potential, it was insufficient when applied in a rapidly evolving competitive environment. The study noted that the negative trend in Bamburi Cement Limited's recent performance, with respect to decreasing operating margin and significant drop in market share regionally as a result of competitive pressures, pointed to the necessity of combining the blue ocean strategy with strong competitive, red-ocean strategies to protect existing market dominance. The study noted that an organization must relentlessly maintain strategic awareness of the dynamics evolving in its industry and remote external environment, even while implementing the blue ocean strategy.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A company's strategy has been viewed as the long-term game plan that an organization pursues for competing successfully and operating profitably, usually based on an integrated array of strategic choices. Thompson, Peteraf, Gamble and Strickland (2012) indicated that in pursuing a sustainable competitive advantage, companies need to develop unique strategies that distinguish them from their rivals and enhance their capacity to maintain substantial profit levels. Although formulating a unique and consistent strategy is a challenging task for any management team, making the strategy operational is far more difficult.

The blue ocean strategy focuses on creating a new industry or distinctive market segment that renders existing competitors largely irrelevant hence obtaining a dramatic and durable competitive advantage (Thompson et al., 2012). Kim and Mauborgne (2005) pointed out that with greater competitive convergence among companies within most industry segments, a more sustainable strategy would be for firms to shift focus from benchmarking with the competition to creating new uncontested market space. The cornerstone of the blue ocean strategy is value innovation which is a systematic process of creating a quantum leap in value for both buyers and the company to the extent that existing competition becomes inconsequential.

The competitive environment in the cement manufacturing industry in Kenya has radically shifted with the doubling of industry players from three to six, and subsequent surplus in production capacities. The dramatic changes occurring within the cement industry are causing a number of established industry players to struggle with sustaining the previously high levels of profitability, with core strategies being to either differentiate or become low-cost players. This approach of shifting the strategic focus of the company away from the competition towards developing superior customer value is the focal point of the blue ocean strategy (Kim and Mauborgne, 2005). With the growing infrastructural spend across the region buoyed by a growing middle class and national policies focused on improving the investment climate, the cement industry will continue to witness intense rivalries. The blue ocean strategy is a model that effectively delineates the simultaneous pursuit of low cost and differentiation in creating, expanding and securing an organization’s strategic position (Thompson et al., 2012).

The market leader in the Kenyan cement manufacturing industry is Bamburi Cement Limited that seems to have largely weathered its industry’s turbulent environmental storm. The organization has invested historically in critical value innovations that have apparently become a key source of their profitability (Bamburi Cement Limited Annual Report, 2013). Established over 60 years ago, the company has enjoyed stable organizational success in the local cement industry principally with respect to financial performance. Through a systematic examination of the implemented blue ocean strategy at Bamburi Cement Limited, this study aimed at identifying possible correlations between the adopted strategies and the company’s financial performance.

1.1.1 The Blue Ocean Strategy

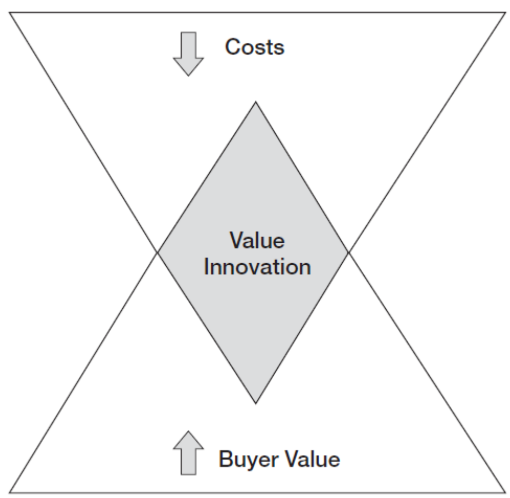
In defining the blue ocean strategy, Kim and Mauborgne (2005) postulated that companies can develop new growth opportunities by shifting focus from strategies aimed at outperforming or beating existing competition, to strategic moves of creating new uncontested market spaces with expansive boundaries and potential. Furthermore, companies operate in a market universe that can be viewed as being composed of two oceans: red oceans, which represent all the industries in existence today; and blue oceans that represent all the non-existent industries, in unknown market spaces (Kim and Mauborgne, 2005).

According to Lee and Gaynor (2006), the rising imperative for creating blue oceans stems from the increasing dynamics in all industry environments where accelerated technological advances have improved productivity; globalization has led to an almost universal access to products and services across regions; accelerated commoditization of products and services; subsequent price wars and shrinking profit margins. In most product and service categories, differentiating brands has become increasingly difficult and price has become the key determinant to revenue growth and profitability (Kim and Mauborgne, 2005).

According to Burke, Stel and Thurik (2010) as the number of firms operating in an industry increases due to attractiveness, the resulting profit erosion arising from competition may require the pursuit of an effective innovative strategy aimed at opening up new markets. It follows that a point of industry saturation will usually be reached whereby all companies operating in that industry will more or less break even (Burke et al., 2010). Typically, many companies tended to share similar conventional wisdom on outperforming each other which therefore leads to greater competitive convergence among them.

The cornerstone of blue ocean strategy is value innovation which focuses on driving buyer value up while simultaneously driving costs down, hence the creation of a leap in value for both the company and its buyers. Cost savings are made by eliminating and reducing factors an industry competes on, whereas buyer value is lifted by raising and creating elements that the industry has never offered (Kim and Mauborgne, 2005). This sequence of activities, as encapsulated in the blue ocean strategy, leads to a quantum leap in value for a company and its customers, resulting in superior organizational performance.

Figure 1: Value Innovation



The Simultaneous Pursuit of Differentiation and Low Cost

Source: Kim and Mauborgne (2005)

1.1.2 Organizational Performance

According to Richard, Devinney, Yip and Johnson (2009), organizational performance is a multi-dimensional concept driven by three influencers namely; the stakeholders for whom performance is relevant; the landscape over which performance is being determined; and the timeframe relevant for measuring performance. Organizational performance can therefore be viewed as encompassing three specific areas of outcomes that consist of financial performance, product performance and shareholder return (Richard et al., 2009). Wanjohi (2013) noted that there exists an imperative for organizations to identify suitable measures to continually monitor performance against objectives.

Kaplan and Norton (1992) indicated that the performance of an organization should be measured based on both financial and non-financial indicators through the well-known concept of the balanced scorecard. The balanced scorecard proposes that traditional financial metrics should be supplemented with additional perspectives of customers, internal business processes, and learning and growth. Accordingly, an organization would be able to track financial results while simultaneously monitoring progress on metrics necessary to ensure sustainable growth in future (Kaplan and Norton, 1992).

Financial performance refers to the degree to which an organization's financial objectives have been met on monetary terms over a certain period. According to Wanjohi (2013) financial measures clarify where a company should focus its efforts, what businesses need improvement and further identify weaknesses within the organization. Notable financial performance measures used include profitability, liquidity, activity analysis, capital structure and stock market ratios. Financial measures remain widely accepted as a primary indicator of financial performance for both internal and external stakeholders of an organization. Drucker (1974) noted that the specific mission of business is economic performance and every deliberation and decision taken by management has economic performance as its first dimension.

Non-financial measures that may be employed by organizations include competitiveness through market share, position and sales growth rate. Others include resource utilization; service and product quality through customer satisfaction surveys; working life quality for staff via staff turnover and absenteeism; innovation; and corporate responsibility measures such as tax compliance and environmental impact.

1.1.3 The Cement Manufacturing Industry in Kenya

The improvement in the overall socio-economic policy environment in Kenya and the region has effectively led to an increased construction boom driven mostly by a burgeoning middle class, transformational needs in regional infrastructure, and strong speculation from discerning investors. The total cement market size in Kenya is currently estimated at approximately KSh 50 billion (Mugwe and Thiongo, 2013). Being highly correlated to a country's economic performance, the last decade has witnessed significant transformation in the Kenyan cement industry. Among these visible transformations are production capacity expansions of existing players, amplified pressure from new entrants, stagnant commodity prices, increasing number of cheap imports and regulatory pressure from the regional economies. These regional economies have subsequently reduced import duty from 40 per cent to 25 per cent under the East African Community Common External Tariff in 2008 that has led to an influx of cheap imports.

The existing cement manufacturing industry currently boasts of six active players with a combined production capacity of slightly over 4.6 million tons annually at an average capacity utilization of 72 per cent. The first cement manufacturing company to be established in Kenya was aptly named East African Portland Cement Company in the 1930s. Over the course of its lifetime, its production capacity has increased to better serve the growing regional market. Bamburi Cement Limited commenced operations in 1959, becoming the second market entrant, and after significant investment and final acquisition by Lafarge SA (France) in 2001, became the market leader in the industry.

The third player to enter the market was Athi River Mining which was originally founded in 1974 and dealt with the production of agricultural lime, processed minerals for paint, rubber and glass. It diversified into the cement production business in 1996. Over the last five years, the attractiveness of the local and regional cement industry has seen the entry of aggressive, price-competitive companies namely Mombasa Cement, National Cement and Savannah Cement. Mombasa Cement was established in 2009 was followed by the fifth player, National Cement that was established in 2010. Savannah Cement was established towards the end of 2011 under the export processing zone, but appears to be shifting its competitive focus to the local market.

1.1.4 Bamburi Cement Limited

In 1951, Bamburi Cement Limited was established as the second entrant in the Kenyan cement manufacturing market by the German firm, Cementia, that later went into partnership with Blue Circle Plc of United Kingdom. Internationally, Lafarge acquired Cementia and Blue Circle in 1989 and 2001 respectively and consequently became the largest shareholder of Bamburi Cement Limited. Lafarge currently has a controlling stake of 58.6 per cent in Bamburi Cement. It has an annual cement production capacity of 2.1 million tons in Kenya and an additional 850,000 ton per year facility in Uganda. Bamburi Cement's annual revenue for 2013 hit KSh 33.9 billion with an operating income of KSh 5.2 billion. The company also owns Bamburi Special Products that focuses on manufacturing precast blocks and ready mix concrete for the local market. Bamburi Cement Limited's operations in Kenya generated approximately KSh 19.4 billion giving the company the largest local market share of 39 per cent. In Uganda, the company generated the balance of KSh 14.5 billion with a local market share of 32 per cent

In spite of the tremendous turbulence and challenges facing the cement industry in Kenya, Bamburi Cement continuous to demonstrate resilience and a relatively steady year-on-year financial performance (Wanjohi, 2013). Among the perceived value innovation strategies developed within the last decade by the company is the development of successful low cost, high compressive strength cement brands that are brighter in appearance; introduction of bulk concrete transportation for accelerating development of large scale projects; alternative energy programs to lower energy costs; and effective distributor loyalty programs within the region that rides on electron commerce technologies (Mugwe and Thiongo, 2013).

The organization prides itself on focusing on key sustainability factors which are delineated as involving leadership in safety standards, vertical integration strategies to deliver value, enhancing route to market, channel partner programs and brand building. Bamburi Cement Limited heavily relies on infrastructure spending as dictated by regional economic conditions. While the bulk of its total revenue originates from the local market, the inland Africa market around the Great Lakes region is critical for its long-term growth (Bamburi Cement Limited Annual Report, 2013).

1.2 Research Problem

It has been observed that the difference between high- growth companies and their less successful competitors was the implicit and fundamental assumptions made by these companies about strategy (Kim and Mauborgne, 1997). Accordingly, the less successful companies focused on staying ahead of the competition within set industry boundaries whereas the high-growth companies focus on creating quantum leaps in value for customers and the company through value innovation (Kim and Mauborgne, 1997). Accordingly, high-growth companies understand that industry conditions can be shaped and that competition is not the benchmark.

The pursuit of a sustainable competitive advantage continues to be the predominant strategic theme of most cement manufacturing firms in Kenya. Porter (1980) indicated that the goal of competitive behaviour for a focused company in an industry, is to identify a position where the company can best defend itself against these competitive forces or can influence them in its favour. Consequently, the various industry rivals in cement manufacturing continue to focus solely on the red-ocean strategies of outperforming their competitors through either low cost, differentiation or focus strategies. The basic concepts of blue ocean strategy are not new and have been applied in various industries both locally and internationally.

Research studies have been carried out on the blue ocean strategy by different researchers on diverse industries. Čirjevskis, Homenko and Lačinova (2011), analysed the viability of implementing the blue ocean strategy in the business-to-business segment. The study fully confirmed the viability and success of implementing the blue ocean strategy in business-to-business models (Čirjevskis et al., 2011). Lee and Gaynor (2006) in their research documented the challenges of implementing the blue ocean strategy in emerging ICT business markets.

Nyambane (2012) conducted a research study on the challenges in the implementation of blue ocean strategies by three large indigenous banks in Kenya. The study determined that whereas common implementation challenges existed such as those due to organizational structure, culture and resources, the banks were able to sufficiently respond to these challenges. Ngaruiya (2013) studied the application of value innovation as a basis of blue ocean strategy by Safaricom Limited. The case study focused on documenting the process taken by the mobile telephony giant in creating sustained value for its customers through value innovation. Miano (2013) studied the determinants for the implementation of blue ocean strategy among commercial banks in Kenya. The study established key factors needed to create and capture new demands, and how to integrate total system activities in commercial banks towards creating uncontested market space.

These studies have focused more on documenting the application of the blue ocean strategy in diverse industries without actually analysing the overall significance of the strategy on organizational success. This case study is, therefore, aimed at evaluating the impact of implemented blue ocean strategy on the performance of the largest cement manufacturer in Kenya, namely Bamburi Cement Limited that has continued to sustain its market leadership position. What is the impact of the blue ocean strategy employed by Bamburi Cement Limited on its overall performance?

1.3 Research Objective

The objective of this study was to determine the impact of the blue ocean strategy on the performance of Bamburi Cement Limited.

1.4 Value of the Study

This study will be useful to management and shareholders of all organizations in the decision-making process particularly with regards to selecting the most optimal and far-reaching strategic responses amid various competing alternatives. Specifically, the findings of this study will provide valuable information to Bamburi Cement Limited in developing future growth and sustainability strategies in light of the existing competitive environment. The impact of the blue ocean strategy is significant in the development and the expansion of new industries and for aiding focused organizations capitalize on the undiscovered marketspaces.

Additionally, it is envisaged that the study may go towards filling existing information gaps on the importance of the blue ocean strategy and its significance on policy and regulation. The insights from this study will guide policy makers on drafting frameworks and regulatory standards governing organizations venturing into new consumer territories. By focusing on potential monopolistic behaviour and anti-competitive tendencies that may arise from this form of strategy, policymakers have the opportunity to visualize the impacts that may arise from unchartered industries. The resulting regulations will ensure all companies employing the blue ocean strategy do benefit from new innovation while observing ethical consumer standards and allowable competitive behaviours.

Finally, the study is aimed at bridging the gap in knowledge and broadening the understanding of the blue ocean strategy theory within academia. This study will enrich the current body of knowledge on the blue ocean strategy and may form a basis for comparing and contrasting various theories on innovation. It is anticipated that the study will be a point of reference for future researchers, both locally and internationally, focused on exploring the impact of the blue ocean strategy in other organizations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a comprehensive review of literature on the concept of the blue ocean strategy and its theoretical foundation. An empirical review of studies on the blue ocean strategy is undertaken. Additionally, the chapter explores literature that is relevant to understanding strategy and its impact on organizational performance.

2.2 Theoretical Foundation

Chandler (1962) defined strategy as the determination of an organization's long-term goals and objectives, effectively identifying the most optimal courses of action, and allocation of resources with a view to achieving these set goals. In highly dynamic environments companies must refocus their corporate energies towards seeking the most optimal strategies among various alternatives in order to remain profitable while satisfying the needs of all their stakeholders. According to Johnson, Scholes and Whittington (2005), in pursuing sustainable profitability in this turbulent business environment, many organizations are faced with strategic decisions that are increasingly complex, involve considerable change in operational practice, and are made in situations of uncertainty.

Various theories have been postulated to guide the strategy development process of organizations in pursuit of sustainable competitive positions. These theories have been classified as falling under two views of strategy, namely; the structuralist view of strategy and the reconstructionist view of strategy. According to Kim and Mauborgne (2005) the structuralist view holds that the industry structure governs the strategic response of a company, and thereby its performance. However, the reconstructionist view holds that the company's strategy can shape its industry structure resulting into a more superior performance. These opposing views of strategy give rise to the red ocean versus the blue ocean analogy whereby companies engaged in strong competitive behaviour are viewed to exist in a red ocean, in contrast to companies operating in the blue ocean that diligently focus on creating superior value for its customers hence rendering the competition irrelevant.

2.2.1 Structuralist View of Strategy

The structuralist view consists of traditional strategy development theories that have often focused on evaluating a company's industry structure and boundaries with a view to determining its strategic choice and actions, and hence attaining its defined performance objectives. Bain (1968) in defining the structure-conduct-performance relationship, postulated that industry structure governs a company's strategy or conduct, which in turn determines its overall performance. According to Martin (2002), the central hypothesis of the structure-conduct-performance is that structural characteristics of a market will determine the behaviour of firms within that market, and this in turn determines the measurable market performance.

In supporting the structuralist view, Porter (1980) indicated that competitive strategy aims at creating a defensible position for a company in a well-defined industry. Accordingly, industry structure has a strong influence on the competitive rules of the game while impacting the strategies potentially available to the firm (Porter, 1980).After clarifying and defining the industry structure, the organization can thereafter assess its strategic competences with a view to enhancing its competitive position. The underlying logic here is that the company's strategic options are bounded by the environment, and the typical response for gaining a competitive advantage is to pursue either a differentiation, low cost or focus strategy (Porter, 1980).

Porter (1980) postulated that competition needs to be viewed beyond known industry rivalry to include four additional competitive forces, namely, threat of new entrants; threat of substitute products and services; customers' bargaining power; and suppliers' bargaining power (Porter, 1980). The five forces model is geared at enabling strategists to systematically diagnose the character and strength of competitive forces in an industry (Thompson et al., 2012). As a result, successful businesses are either low-cost providers, differentiated operators or niche-players.

Hill (1988) claimed that Porter's model was flawed because differentiation can be a means for firms to achieve low cost. Accordingly, a combination of both differentiation and low cost strategies might be essential for firms to achieve sustainable competitive advantage (Hill, 1988).

2.2.2 Reconstructionist View of Strategy

The blue ocean strategy evolves primarily from the reconstructionist view of strategy, which is founded on the theory of endogenous growth, which holds that economic growth is the result of internal forces, originating from within the organization itself (Kim and Mauborgne, 2005). Schumpeter (1934) observed that forces that change the economic structure and industry landscapes can come from within the system, with the main source being the creative entrepreneur. According to Romer (1994), economic growth is an endogenous outcome of an economic system, not the result of forces that impinge from outside. Furthermore, Christensen (1997) observed that disruptive technologies generate new innovations that unexpectedly bring an established market to an end.

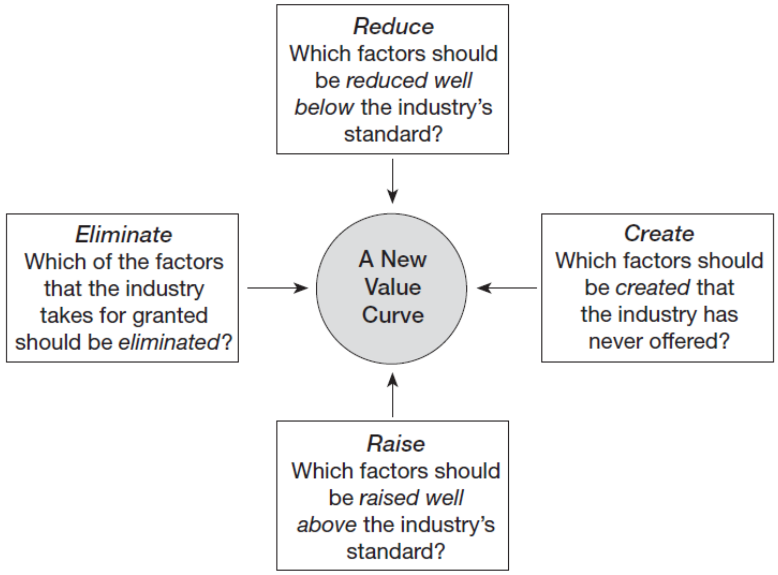
Henry (2008) pointed out that Porter’s Five Forces assumes a zero-sum game whereby success in any given industry can only be achieved at the expense of other players. The Five Forces framework has been further criticized as being a static analysis that makes the assumption that markets are static. It had been noted by Prahalad (1994) that many organizations face change that is discontinuous in the competitive environment and that the disruptive forces that cause this change are actually accelerating.

2.2.3 Value Innovation Theory

The cornerstone of the blue ocean strategy is value innovation whereby organizations begin focusing on driving buyer value up while simultaneously driving down the company’s costs, in contrast to purely benchmarking against the competition and current industry standards (Kim and Mauborgne, 2005).

In enhancing value innovation that lower organizational costs while driving buyer value up, the Four Actions Framework was developed by Kim and Mauborgne (2005). This set of four key questions aids in guiding the development of a new value curve that is distinct from the current market value proposition. The four key questions consist of determining: what factors within the industry should be eliminated; what factors should be reduced; what factors should be raised; and which factors should be created in a quest to minimizing costs while simultaneously increasing buyer value.

Figure 2: The Four Actions Framework



Source: Kim and Mauborgne (2005)

Accordingly, it is by pursuing the first two key questions on reduction and elimination that the company gains insight into how to manage its cost elements compared to its rivals. The last two questions on creation and raising certain industry factors that new sources of value for buyers and new demand is enhanced (Kim and Mauborgne, 2005).

Amit and Zott (2010) postulated that value innovation is essential in creating and appropriating value, especially in times of economic change. Accordingly, this form of innovation involves designing a modified or new activity system aimed at creating value for the firm, its partners, suppliers and most importantly customers. The company must assess the numerous interdependencies among its business activities and then structure these activity systems towards creating holistic value within its ecosystem (Amit and Zott, 2010).

2.3 Blue Ocean Strategy and Organizational Performance

The mark of a winning strategy can be clearly determined by its impact on two categories of parameters: profitability and financial performance; and the competitive strength and market standing of an organization (Thompson, et al., 2012). According to Kaplan and Norton (2001) organizations require a set of measures that provides the top management with fast but comprehensive view of the business. Therefore, financial measures must be complemented by operational measures on customer satisfaction, internal processes and the organization's innovation and learning activities (Kaplan and Norton, 2001).

The overall objective of blue ocean strategy is to create uncontested market space with exceptional opportunity for highly profitable growth for organizations. Blue ocean strategies focus companies away from typical competitive moves and rivalry. According to Kim and Mauborgne (2005), having studied business launches in 108 companies over a 15 year period, 14 per cent of these launches that represented distinct value innovations eventually accounted for an average of 61 per cent of total profits for these organizations. Accelerated technological advances, globalization and commoditization of products continue to erode the profitability of many companies operating in typical red ocean environments. The imperative for new strategic approaches as encapsulated by the blue ocean strategy to sustain organizational performance is a necessity in today's business environment.

In improving the cost structure of organizations with a view to improving bottom line performance, the blue ocean strategy forces organizations to reconsider factors that its industry competes on, such as premium packaging, with a view to eliminating or reducing them. It requires companies to assess whether products have been overdesigned in a race to beat its rivals and to thereby reduce its focus on this aspect (Kim and Mauborgne, 2005). Blue oceans are typified by new revenue sources from non-customers or potential users outside a company's target market, through the raising of new value elements for such buyers in order to create new demand.

According to Mankins and Steele (2005) the performance of organizations are directly linked to closing the strategy-to-performance gap through better planning and execution. The blue ocean strategy approach requires disciplined planning and execution processes while managing inevitable risks. In moving reorganizing a company's internal processes towards learning and growth, the blue ocean strategy requires firms to look across alternative industries and strategic groups to strengthen its overall value proposition.

2.4 Empirical Studies on Blue Ocean Strategy

The blue ocean strategy has been studied and researched on by various scholars with focus on practical implementation and the reorganization of a company's resources towards simultaneous pursuit of low cost and differentiation.

Čirjevskis, Homenko and Lačinova (2011), analysed the viability of implementing the blue ocean strategy in the business-to-business segment. Čirjevskis, et al. (2011) sought to determine how to evaluate the suitability of a blue ocean strategy and the process of overcoming organizational hurdles related to its implementation. In studying two chemical companies, Sika AG (Swiss) and Alexandra Plus LLC (Russian), the researchers were able to identifying possible challenges in the implementation of chosen value innovation strategies and the recourse taken by these two firms to effectively overcome these hurdles that included value chain improvements and asset optimization to create blue oceans.

Lee and Gaynor (2006) in their research documented the challenges of implementing the blue ocean strategy in emerging ICT business markets. These researchers noted that the blue ocean strategy does not account for uncertainty in emerging markets (Lee and Gaynor, 2006). Furthermore, the study noted that whereas the blue ocean strategy describes how to find uncharted market space, it does not provide guidance in developing a strategy that maximizes this new market. Consequently, the study proposes a new tool called the Real Options Framework that postulates the creation of a flexible infrastructure and experimentation to minimize uncertainty (Lee and Gaynor, 2006).

Amit and Zott (2010) confirmed that value innovation is essential in creating and appropriating value, especially in times of economic change. Accordingly, the researchers noted that companies focusing on value innovations had grown faster that their competitors (Amit and Zott, 2010). Nyambane (2012) conducted research on the challenges of implementing the blue ocean strategy on three large indigenous banks in Kenya. The study assessed the responses necessary in the hypercompetitive market space of the commercial banking industry. Nyambane (2012) noted that the three banks (Kenya Commercial Bank, Equity Bank and Cooperative Bank) did have clear focus on developing blue ocean strategies as part of core strategic plans and through specialized projects. The challenges encountered by the banks included balancing competitive approaches with seeking blue oceans, effectively justifying the value innovations prior to introduction, and systemic and cultural hurdles (Nyambane, 2012).

Some researchers found that there is a mutually reinforcing relationship between Blue Ocean strategy and innovation. Kim and Mauborgne (2005) finds that the blue ocean strategy helps organizations to innovate and bring new products to market. Ngaruiya (2013) studied the application of value innovation as a basis of blue ocean strategy by Safaricom Limited. The case study focused on documenting the process taken by the mobile telephony giant in creating sustained value for its customers through value innovation. The study revealed that Safaricom Limited focused on existing and future customers and capitalizes on the knowledge economy, investing in intellectual assets which it considers more strategic to maintaining leadership.

Miano (2013) studied the determinants for the implementation of blue ocean strategy among commercial banks in Kenya. Miano focused on the application of the Four Actions Framework of the blue ocean strategy concept. Among the factors noted by the researcher as critical to developing blue oceans included developing innovations within customer management processes, reducing process costs and overheads, and enhancing new product and service categories. Morris (2007) demonstrated that organizations using blue ocean strategy to meet the challenge of innovation will bring themselves substantially advantages with their innovation.

Vester (2012) determined how the blue ocean strategy could be applied by electronic musical instrument companies to enhance their performance. The study assessed existing competitive strategies employed within this industry and the imperative to shift focus to creating uncontested market spaces, capturing new demand and pursing value innovation. The researcher further focused on determining the effective strategic response required by this company to create superior long-term leadership in its industry.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the techniques and procedures used by the researcher in conducting the study and accumulating the data for the study. It highlights the overall approach taken in the research with respect to research design, data collection and data analysis.

3.2 Research Design

The research was approached as a case study of Bamburi Cement Limited. Farquhar (2012) suggested that the aim of a case study is to dig deep, look for explanations and gain a wider understanding of phenomenon through multiple data sources and hence test theory. A case study has been viewed as a holistic empirical inquiry whose goal is to gain insight and investigates complexity in phenomenon within its real life context (Farquhar, 2012). The descriptive approach was chosen primarily due to its ability to provide an in-depth comprehension of visible relationships that may not be easily transparent in typical experimental or survey approaches. This study was longitudinal in nature by examining the same performance variables over a fifteen year period. It was anticipated that the time frame selected would sufficiently provide greater clarity on the impact of the blue ocean strategy as applied in a highly competitive industry.

3.3 Data Collection

The study relied on both primary and secondary data. Additionally, the data collected was both qualitative and quantitative in nature. Primary data was collected through structured personal interviews using an Interview Guide. There were seven respondents who were targeted: four top management executives and three general managers in charge of strategic business units of Bamburi Cement Limited. Interviews were conducted with the Strategy Manager, Finance Director, Industrial Director, Sales Director, and the Unit Heads of Bamburi Special Products, Mombasa Plant and Nairobi Grinding Plant with a view to understanding the blue ocean strategic responses adopted by the organization to sustain high level performance; the financial implications with respect to revenue and operating income; and operational challenges encountered. The interviews captured value innovations implemented by the company and their impact on overall business performance.

Secondary data was collected through observation of available company documents and the annual reports published by the company over the last fifteen years. These reports provided financial statements that indicated year-on-year sales revenue, expenditure and profitability of Bamburi Cement Limited and this enabled cross-referencing of the company's performance with any blue ocean strategies undertaken over this period. Additionally, the secondary data was used to corroborate or clarify areas of concern while undertaking the face-to-face interviews.

Collection of primary data was facilitated by an interview guide administered by the researcher while the secondary data was collected using a pre-designed data collection form. The interview guide was structured in three parts with part one focusing on the

Kenya cement manufacturing industry; part two focused on the company and implemented strategic responses including notable blue ocean strategies; and part three on the interviewee's insight on the impact of the implemented strategies to organizational performance. The study was conducted at Bamburi Cement Limited's corporate headquarters in Nairobi and two manufacturing facilities in Machakos and Mombasa Counties respectively.

3.4 Data Analysis

The study used Content Analysis to effectively analyse the qualitative and quantitative data collected and described using graphics and narratives. Content analysis is the systematic qualitative description of the composition of the objects or materials of study. The themes used in the study were categorized under four headings namely: general overview of the company's strategy development process; the company's historical performance with key metrics identified over the fifteen year period; identified blue ocean strategies employed by the company; and the relationship between the blue ocean strategies and organizational performance. The respondents' insight on the impact of each strategy to the organization's financial performance was assessed and presented through descriptive narratives.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and interpretation of the data collected during the study. The data collected was analysed in line with the research objective of determining the impact of the blue ocean strategy on the performance of Bamburi Cement Limited, Kenya.

4.2 Profile of the Respondents

The primary data was collected through detailed personal interviews with targeted respondents. The interviews were successfully undertaken with the high level executives and managers of key functions identified in the research methodology, with a registered 100% response rate. Out of the seven respondents, five had been with the company for over 10 years, while the other two had joined the organization approximately five years prior from related manufacturing operations. Nevertheless, the respondents, by virtue of their positions, were sufficiently conversant with the evolution of the industry and strategic issues facing the organization over the past 15 years. All the respondents have university level of education in fields ranging from finance to engineering.

The respondents represented the finance, strategy, industrial and sales functions. All the director-level executives were responsible for the Group’s operations in Kenya and Uganda and therefore provided a broader view of the business. The Unit Heads of the manufacturing subsidiaries provided in-depth information on the functional level strategies employed as part of implementing the blue ocean strategy. The secondary data was gleaned from the company's annual reports dating back to 1999 to provide essential data on the fifteen year operational history of the company. The secondary provided in-depth information that was corroborated by the primary data collected through the personal interview process.

4.3 Strategy Development Process at Bamburi Cement Limited

To fully understand the progressive implementation of the blue ocean strategy and its impact on Bamburi Cement Limited, it was essential to establish the strategy development process of the company. The determination of the formality or informality of the process would enable the study form a baseline that would indicate what had in the past guided the growth of the organization, especially with respect to critical value innovations. Furthermore, being part of a larger multinational corporation with headquarters in France, the influences derived from its head office in strategy development would provide an understanding on its current strategic priorities and also its future long-term direction.

In establishing its game plan for operating profitably and establishing a sustainable competitive advantage, the respondents indicated that a formal strategy development process is employed by the company that also involves corporate input from Lafarge SA. All components in the management cycle are linked to form a coherent theme of organizational growth and development. According to the director level respondents, though the process is championed and driven by the top management, the respondents indicated that critical input is obtained from the middle and lower cadre teams to ensure alignment and a more pragmatic approach to the process. The strategy development cycle consists of four key processes, namely: strategic review, performance planning, organizational and human resources review, and budgeting with a 3 to 5 year focus.

All the respondents agreed that the strategic review process involved the formal review of the organization's success with regards to established corporate objectives established in the strategic plan and the prior year's performance planning process. An assessment of the organizational strength and weaknesses is conducted, as well as determining emerging opportunities and developing threats in the environment. The strategic choices available to the organization with respect to growing and defending the organization's strategic position is deliberated and formulated with insight from the parent company in Europe. Accordingly, the respondents indicated that the performance planning process is derived from the strategic review process and entails the establishment of business unit strategies for its key subsidiaries. The corporate strategy is translated into business level and functional strategies with corresponding objectives, resource allocation program, timeframes and responsibility.

The respondents pointed out that the organizational and human resources review process is undertaken to audit the business structure and competence profile of its human capital with regards to delivering the strategic priorities identified and the performance plans developed. The organizational review assess the structural alignment between strategy and capacity for execution. Areas such as such as succession planning, talent acquisition and development, performance management and training needs analysis are undertaken.

The budgeting cycle forms the last phase of the strategy management process whereby the operational and capital allocations are determined by Bamburi Cement Limited and approved by Lafarge SA. The link between financial performance and the budget is established by the company towards realizing the growth agenda for the next 3 to 5 years. Besides budgeting for nominal operational requirements, necessary investments in industrial projects, market development, research and development, and competence improvement are established. This expenditure is aligned with the forecasted performance growth.

4.4 Blue Ocean Strategies Developed by Bamburi Cement Limited

The respondents indicated that the company's corporate vision was to become the leading construction solutions provider in the region. Furthermore, the parent company Lafarge SA through Bamburi Cement Limited, noted through its strategic review process, that in order to remain relevant in the local market place, it needed to deliberately embark on distinct value creating strategies. According to the respondents these value innovations are based on identifying which industry parameters should be reduced or eliminated to achieve significant cost savings, while raising and creating new strategic parameters well above the industry's current standards. Through this process, the simultaneous pursuit of low cost and differentiation could be achieved.

The respondents identified three key value innovations that provided the organization with a distinctive competitive advantage over its competitors from the year 2003 to 2011. According to the respondents, these value innovations were aimed at positioning the organization as a low cost leader while also differentiating the organization as a high quality brand. This simultaneous pursuit of low cost and differentiation was the basis of their blue ocean strategy.

4.4.1 High Cement-to-Clinker Ratio Program

The respondents indicated that through an intense process of research and development, Bamburi Cement Limited in 2002 embarked on developing suitable high quality but lower cost cement brands for the local market (Bamburi Cement Annual Report, 2002). With energy accounting for up to 25% of cement production costs, the respondents noted that the organization needed to identify a more sustainable solution to remaining competitive locally because of the threat of newer, more technologically advanced players, spiralling production costs and increasingly cheap imported cement. The respondents noted that the cost of electricity in Kenya is one of the highest globally at KSh 18 per kilowatt-hour compared to KSh 3 per kilowatt-hour in Egypt or India. To engage in meaningful research and development, the organization focused on innovating around identifying parameters that could bolster its customer value proposition through its end products.

Accordingly, the respondents indicated that Bamburi Cement Limited had noted that ordinary cement was composed primarily of gypsum and clinker, which is high compressive strength granules formed by heating limestone, silica, and other additives to temperatures in excess of 1400 degrees Celsius. By virtue of the temperatures required and the further process of fine grinding, intense levels of energy are consumed hence driving up the production costs. The company realized that limestone, which is a primary input in the early stage of the clinker production process and has binding properties, could be used as an additive in the final product. By eliminating and substituting part of the costly clinker with quarried, cheaply available limestone and grinding the cement slightly finer, the company realized it could save significant costs while producing an even higher quality of cement. This break-through in product design (high cement-to-clinker ratio brand) would be an enduring value innovation that would ensure significantly lower cement costs and hence higher profitability while raising the industry's quality standards locally.

4.4.2 Ready Mix Concrete

The respondents indicated that in 2008, the company launched an ambitious value innovation program of fast tracking large construction projects undertaken by its customers through providing customized concrete solutions delivered complete to construction sites. By eliminating the costs involved in delivering separate cement, sand, ballast, water and blending labour, the company sought to enhance value delivery to its customers. According to the respondents the Ready Mix concrete solution involved the pre-blending of cement, sand, gravel and water within one of Bamburi Cement's operational batching plants and delivering to a construction site on transit mixer trucks. Quality control is ensured at the batching plants based on established local and European quality standards. The process eliminates material wastage, labour costs, and raises pollution standards of manufacturing sites.

The Ready Mix concrete innovation was a strategic initiative developed by the company to capitalize on the inherent need by the construction industry to optimize on costs, enhance quality consistency in structures, while introducing the much needed convenience in the construction process. The innovation ensured that customers are served expediently, eliminates stockpiling of the various constituents and subsequent clean-up costs. The respondents noted that additional product extensions developed under the Ready Mix concrete portfolio so far have included self-compacting concrete, fibre-reinforced concrete and high slab concrete among other specialized solutions.

4.4.3 The Alternative Energy Program

The relentless drive for sustaining a stronger market position, through lower energy costs and differentiation in Bamburi Cement Limited's manufacturing operations in Kenya and Uganda, continued to dominate its strategic agenda. In 2005, the company focused its efforts towards developing cheaper sources of energy for its production sites while addressing a pressing environmental need. In Kenya, the company focused on experimenting with waste materials as an alternative energy source to coal, even if by partial substitution. After rigorous tests, the production site in Mombasa County succeeded in using waste automotive tyres to replace a small portion of its fossil fuel source. In Uganda, the company successfully replaced half of its fuel source with agricultural coffee husks drawn from nearby coffee farms. While reducing its production costs significantly, the company has been able to address environmental pollution occasioned by the previously hazardous waste materials.

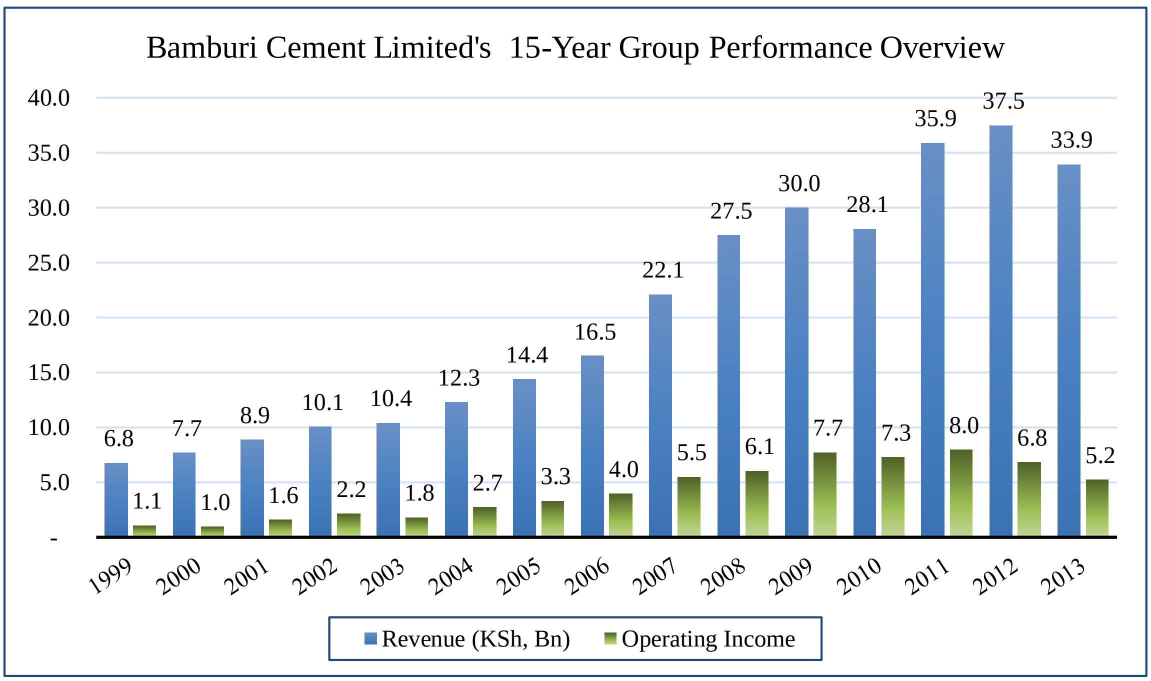
4.5 The Impact of the Blue Ocean Strategy on Bamburi Cement's Performance

According to the respondents, the value innovations introduced by Bamburi Cement Limited were geared at improving its strategic position in the growing local markets of Kenya and Uganda. In determining the impact of these value innovations, the performance assessment of Bamburi Cement Limited focused on two primary areas mainly being the financial performance of the company over the fifteen year period and the evolution of its market position within the two markets.

4.5.1 Financial Performance

The respondents noted that while the company embarked on an incremental capacity expansion drive between 2002 and 2009, the success of that expansion rested on the critical value innovations of high-cement-to-clinker ration and energy cost reduction. A horizontal analysis of the company's turnover and operating income reveals the growth trajectory over the fifteen year period up to 2013.

Figure 3: Bamburi Cement Limited's 15-Year Revenue and Operating Income



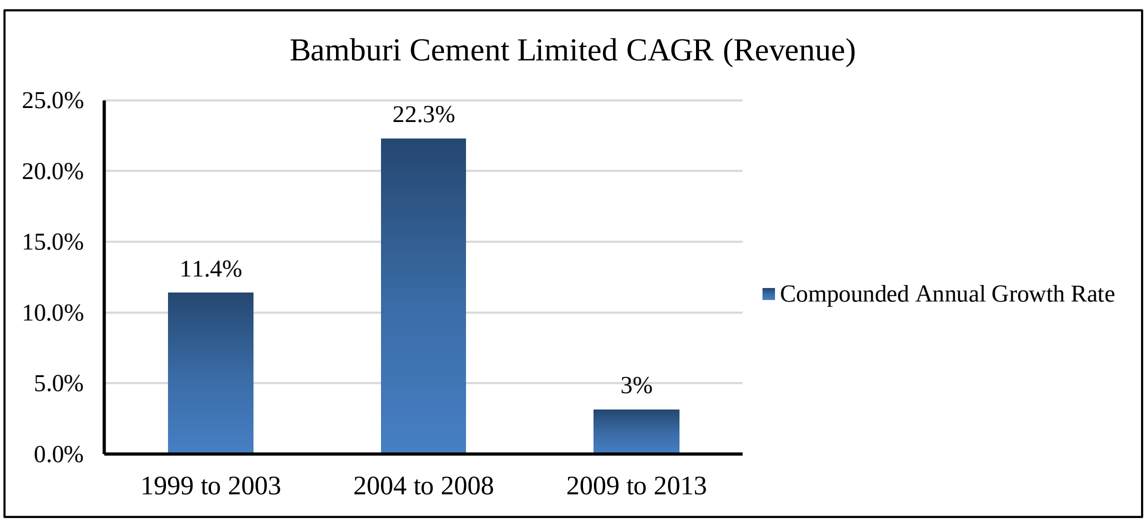
Source: Bamburi Cement Annual Report (2013)

The respondents noted that the organization's turnover over its last fifteen year cycle had grown five-fold as a result of pursuing the blue ocean strategy by introducing new value innovations. Additionally, its operating income had grown six times over this period. The value innovation of high cement-to-clinker ratio in 2002 bolstered the performance of the company up to 2009 where virtually all the industry players imitated this formulation.

The respondents further noted that intense competitive pressures that commenced from 2009 following the introduction of new entrants increased the local cement supply volumes beyond existing demand levels leading to significant price increase suppression.

Nevertheless, the respondents pointed out that by establishing the critical value innovations, that organization was able to position itself as a low cost leader while at the same time differentiating itself as a high quality brand. The respondents indicated that the Alternative Energy Program had yet to gain significant traction in Kenya where over 60 per cent of the company's revenue originated. Nevertheless, the respondents noted that by analysing its revenue's compounded annual growth rate (CAGR), the true impact of the blue ocean strategy on the organization's growth could be noted. Following this insight, the study grouped the CAGR on revenue into three even time blocks covering the 15 year period.

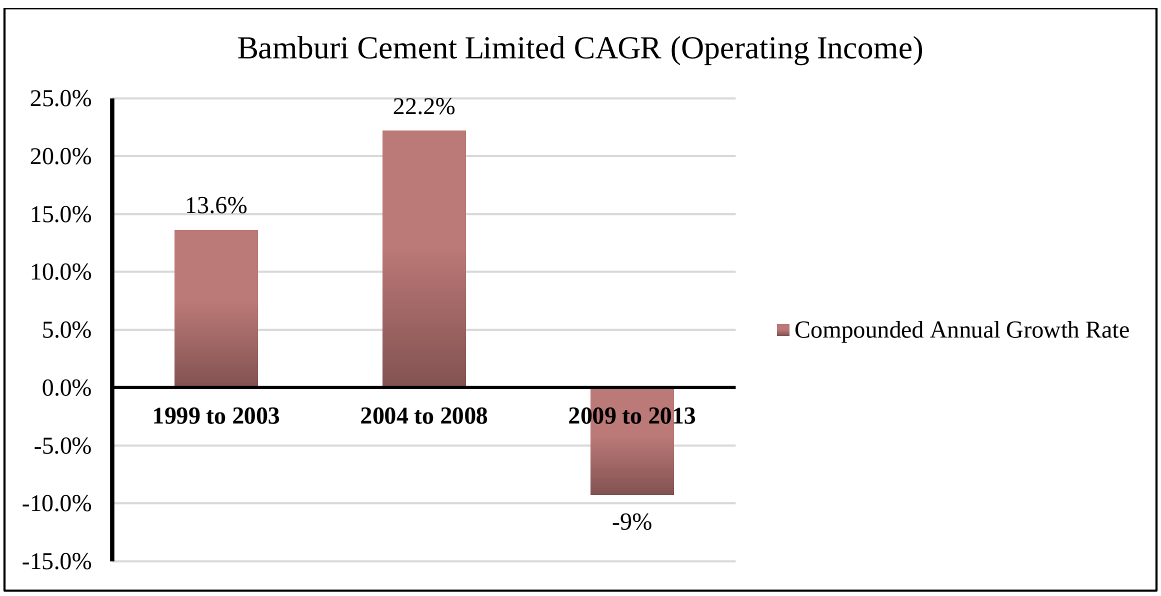
Figure 4: Compound Annual Growth Rates (Revenue)



Source: Researcher (2014)

The respondents indicated that the periods of intense implementation of the value innovation, of high cement to clinker ratio, while expanding production capacity had the highest CAGR of 22.3% compared to 11.4% for the prior four years (1999-2003) or the subsequent four years which had 3% (2009-2013). The CAGR on operating income reveals an even more interesting trend whereby the last five years of the company's operation indicate a negative trend with regards to income growth. The previous five years recorded the highest CAGR of 22.2% that tallies with the revenue growth rate for this period. The respondents attributed the slump in the recent five years to increasing competition for the cement market and installation of more efficient technology in the new plants.

Figure 5: Compounded Annual Growth Rate (Operating Income)



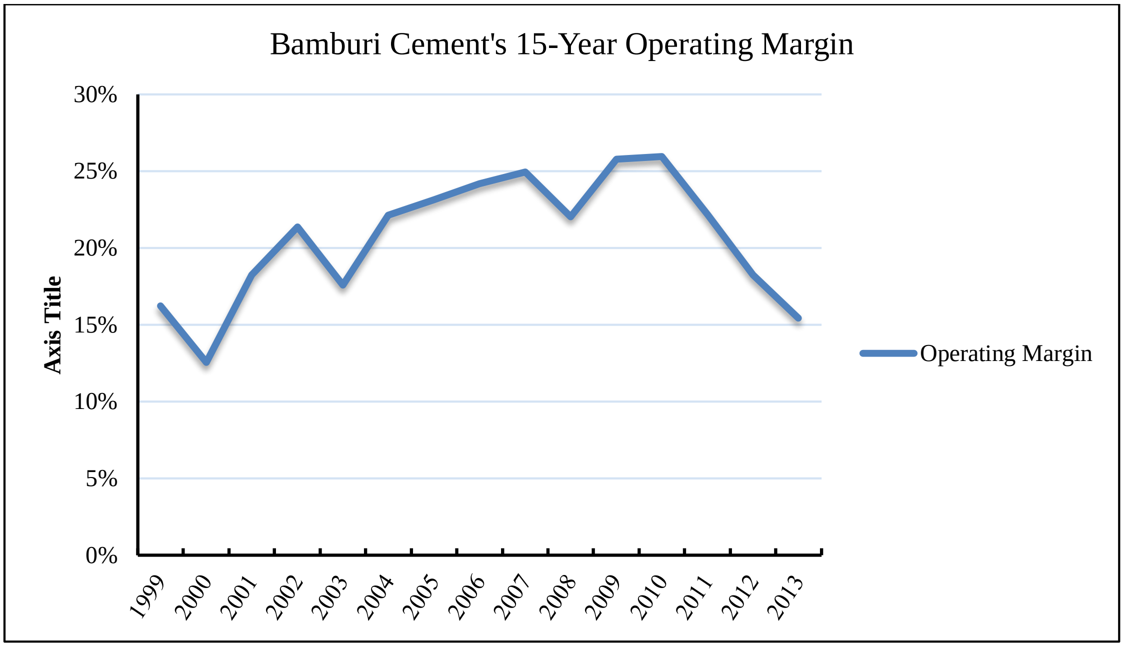
Source: Researcher (2014)

The respondents indicated that all competing rivals had adopted a number of Bamburi Cement's key innovations such as the formulation of the high quality-low cost cement brands hence destroying their competitive advantage. This has subsequently led to decreased differentiation between the brands over the last five years. Furthermore, the study noted that the Ready Mix project was yet to deliver a more significant impact on the company's performance.

The study analysed the operating income (instead of net income) of Bamburi Cement Limited to account for behaviour of the firm's normal core business operations while excluding income generated from other investments. As a result of its blue ocean strategy, the organization witnessed increases in its operating margin during the most intense phases of its growth (Figure 5). The study noted two dips in the operating margin which the respondents pointed out corresponded to the years following Kenya's general election years of 2002 and 2007.

Generally, the trend tallies with the compounded annual growth rates of Figure 4. The study noted that operating margin increased from 16% in 1999 to a high of 26% in 2009 and 2010 before succumbing to a meagre 15% in 2013. Again, the respondents pointed to escalation production costs, replication in the brand cement formulations leading to decreased differentiation among competing brands, the new competition's superior processing technology matching or outperforming Bamburi Cement's cost-to-income ratio.

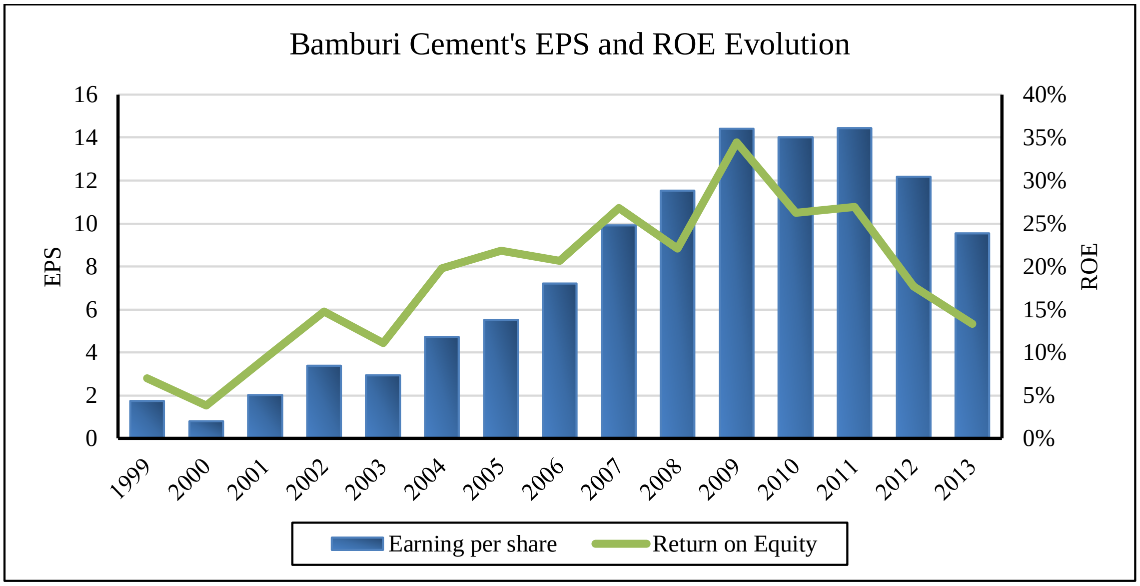
Figure 6: Bamburi Cement Limited's 15-Year Operating Margin



Source: Bamburi Cement Annual Report (2013)

In assessing the evolution of shareholder's return on investments, the respondents indicated that a similar trajectory would be observed whereby shareholder's wealth did grow between 2002 and 2009 in line with the company's performance. The respondents noted that the aggressive implementation of its value innovations while expanding capacity contributed significantly to the successful growth of shareholder's wealth during this period. The study observed the highest return on equity of 34% in 2009 which tallied with an Earning per Share of 14.41. This anomaly was attributed to the sale of the company's shares in Athi River Mining.

Figure 7: Bamburi Cement Limited's Earnings per Share (EPS) and Return on Equity (ROE)



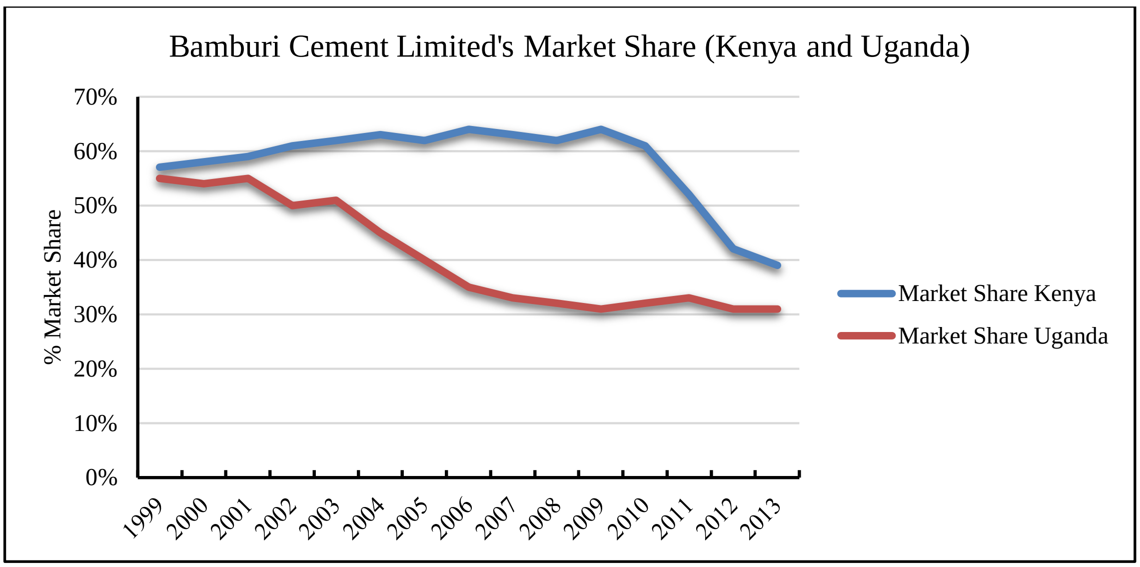
Source: Bamburi Cement Annual Report (2013)

4.5.2 Market Performance

The respondents indicated that in the period between 1999 and 2009, the cement industry in Kenya comprised of only three active players namely East African Portland Cement Company Limited, Athi River Mining and Bamburi Cement Limited. The three entities competed for a market that was experiencing upward growth that was in tandem with the economic environment. According to the respondents the company grew its market share in Kenya from 57% in 1999 to a high of 64% in 2009 by implementing the blue ocean strategy. The organization subsequently sold up to 12 per cent of its product to other cement-deficit markets of Rwanda, South Sudan and Uganda.

The respondents further pointed out that the current local market share of 39% may not have immediately eroded its profitability due to its prior investments in the blue ocean strategy. Furthermore, the establishment of grinding stations by the new entrants, compared to the incumbents' integrated plants was a key challenge. The respondents noted that the grinding stations owned by National Cement and Savannah Cement, imported cheap clinker from low cost or subsidized markets such as India and Egypt, whereas the incumbents including Bamburi Cement Limited have installed clinkerization capacities locally. These inherent disadvantage in the incumbent's business model was impacting their growth rates.

Figure 8: Bamburi Cement Limited's 15-Year Market Share Evolution



Source: Bamburi Cement Annual Report (2013)

According to the respondents, the market share observed in Uganda followed a different trajectory where Bamburi Cement Limited (through its subsidiary, Hima Cement) was not the market leader in that particular market. The company held a lower production capacity of 840,000 metric tons compared to the market leader, Tororo Cement that holds 1.8 million metric tons. The observed drop in market share from 2002 corresponds to the competitor's rapid expansion plans to capitalize on the growing local market.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the research findings whose objective was to determine the impact of the Blue Ocean Strategy on the performance of Bamburi Cement Limited, Kenya. Additionally, the chapter presents the conclusion drawn from the study as well as recommendations for improvements and suggestions for further research.

5.2 Summary

The study established that Bamburi Cement Limited had a deliberate blue ocean strategy development processes that was organized around creating value innovations with the primary objective of enhancing its overall customer value proposition. Most importantly, the value innovations created as the basis of its blue ocean strategy played a significant and impactful role on the performance of the company between 2002 and 2009. It was established that these value innovations involved pursuing both differentiation and low cost strategies. The study also noted that while the blue ocean strategy employed by Bamburi Cement Limited was sufficient to enhance its strategic position for over eight years, the entry of more aggressive competitors from 2010 challenged its dominant position.

The study further noted that while the company embarked on three distinct value innovations as part of its blue ocean strategy, the most impactful was the High Cement-to-Clinker Ratio program. This innovation contributed to Bamburi Cement Limited’s most significant growth from 2002 to 2009. The study established that the other value innovations introduced in recent years had yet to gain traction in markets that were witnessing turbulent competitive dynamics. The study noted that although the Ready Mix and alternative energy program played a key role in the organization's growth trajectory, its implementation and eventual impact would be more gradual.

The respondents in the study pointed to a relationship between the blue ocean strategy employed by the company and the positive impact on shareholder's returns. The increase in shareholder's wealth was most significant where the value innovations impacted the growth trajectory of the company. Beyond 2009, their impact diminished due to strong competition from new players in the local cement market. Additionally, whereas the market share of Bamburi Cement Limited in Kenya grew modestly in prior years, the blue ocean strategy allowed its growth trajectory to improve through accessing a large inland market outside of Kenya.

5.3 Conclusion

The success of any organization is driven by its ability to offer a value proposition that is superior to its competitors. The blue ocean strategy pursues this objective by forcing companies to consider value innovations that would most enhance their strategic positions. By considering both low cost and differentiation approaches, the blue ocean strategy enables an organization to look beyond normal competitive practices of the red ocean, to creating new demand in uncontested market spaces. Nevertheless, an organization must be keenly aware of its environmental dynamics to ensure competitive forces do not encroach on its territorial market space. While pursuing new market spaces, it is critical that an organization seeks to defend its existing leadership space through common red ocean strategies.

Bamburi Cement Limited sought to enhance its strategic position by creating and pursuing both low cost and differentiation strategies. The company focused on eliminating and reducing cost-incurring parameters that was considered necessary by the competition, while at the same time creating new standards that its customers considered valuable. In pursuing this approach, the company established its blue ocean strategy which ultimately enhanced and sustained its performance for over eight years. By pursuing this strategy, Bamburi Cement Limited emerged as the leading cement producer in the region with respect to profitability.

The study also notes that despite the benefits that accrued from this strategy in the past, the competitive landscape had changed tremendously with the doubling of industry players, the introduction of more efficient technologies by competitors, spiralling costs of production and a toughening regulatory environment. It is therefore essential for Bamburi Cement Limited to engage in critical situational analyses aimed at creating superior customer value through newer transformative solutions that would set it apart from the competition. The company should embrace competitive strategies to defend and protect its dominant industry leadership even while pursuing value innovations in the foreseeable future.

5.4 Recommendations for Policy and Practice

It is evident that although the development of a unique and valuable market position strengthens a company's strategic position for a considerable period of time, the resulting success only serves to attract aggressive competition that would seek to replicate that model. In developing and implementing strategic responses to environmental opportunities, organizations need to maintain strategic awareness of forces shaping their industries. While the blue ocean strategy seeks to render competition irrelevant by creating superior value for both customers and the organization, unexpected evolutions in the operating environment may impact the success of this approach. An organization pursuing a blue ocean strategy must also be keenly aware of existing industry forces that could be assessed by common tools such as Porter's Five Forces.

It is known that organizations in sectors such as manufacturing face challenges of innovating fast enough due to already installed tangible assets and high capital costs for newer installations. Nevertheless, organizations should seek to continually reinvent their strategic approaches within their respective industries if they are to remain relevant in the 21st century. Companies must institute innovative cultures that seek to redefine their future value propositions. In implementing new value innovations, companies are also advised to accelerate the impact assessment of their innovations through progressive empirical testing and evaluation systems.

As they seek sustainable competitive advantage, organizations must be fully cognizant of the strategic control and feedback processes which must be applied to ensure consistent achievement of their overall objectives. For multi-national corporations such as Bamburi Cement Limited, it is essential that the domestic executive teams communicate their strategic agenda and relevant analysis to their parent headquarters rapidly. This would enhance their capacity to evolve as fast as their smaller, less bureaucratic rivals.

5.5 Limitations of the Study

This study focused primarily on the leading cement producer in Kenya and considered a 15 year time period of this organization. In this regard, the study has its strongest relevance within this particular industry and any attempts to generalize outside this contextual scope should be approached with utmost care. It should be noted, furthermore, that the blue ocean strategy evaluation in this study was based on retrospective analysis of performance against the strategy.

Additionally, accessing the company's archived reports that were representative of the 15 year time period, and the concomitant costs thereof, also limited the depth of analysis. It was desired that the research would extract more detailed internal management reports ranging from feasibility studies to project documents, but due to time restrictions, these could not be achieved.

5.6 Recommendation for Further Research

Future research should focus on analyzing the strategic responses of the remaining local cement manufacturing industry players to Bamburi Cement Limited's blue ocean strategy over the same 15 year time period. With the larger economies of South Africa and Nigeria, it would be of academic interest to understand the specific blue ocean strategies pursued by larger multinationals such as Dangote Cement that currently dominate Africa.

While this study focused on financial and market performance, future research should be carried out to establish the relationship between the blue ocean strategy and non-financial parameters, such as organizational cultural evolution, organizational design and structural changes, and strategic control systems emerging within an organization.

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APPENDICES

Appendix I: Interview Guide

INTERVIEW GUIDE ON THE IMPACT OF THE BLUE OCEAN STRATEGY ON THE PERFORMANCE OF BAMBURI CEMENT LIMITED IN KENYA

Dear Participant,

I, Collins Kiptoon, a student at the University of Nairobi pursuing Master of Business Administration with a specialization in Strategic Management, kindly request you to participate in this case study.

I do request that you respond to the following questions as accurately as possible. The information collected for this study are for academic and research purposes only and will be treated with utmost privacy and confidentiality. Your responses and those of other respondents will be combined into one generalized report and will not make reference to your names. Please note that participation is voluntary. Your time and contribution will be highly appreciated.

<u>Interviewee Profile</u>

Interview No.: ……………………………….. Date: ……………………………….

Interviewee Name: ……………………………………………….........................

Department: ……………………………………Position Held: ……………………

Duration with the Company: …………………………………………………………

Highest Education Level Attained: …………………………………………………

Section A: Company and Industry Profile

1. How is strategy developed in your organization? Who or what is involved?
2. What role does your parent company, Lafarge SA, play in the strategy development process for the Kenyan and Ugandan market?
3. What is the lifecycle of your strategic planning process? What are the specific inputs towards developing this document?
4. What significant issues has the cement manufacturing industry in Kenya faced over the last 15 years (1999-2013)? What are the predominant issues currently?
5. How would you describe your performance over this 15 year period? What strategic issues guided the development of this growth?
6. How has the market share of the company evolved over this 15 year period?

Section B: Blue Ocean Strategy Formulation and Implementation

7. Blue Ocean strategies involve creating superior value for the customer and the organization by simultaneously pursuing both low cost and differentiation strategies. What strategies of this nature have been employed? Which year and in what subsidiary?
8. Is there a distinction in the blue ocean strategies developed versus the typical competitive strategies developed by your organization?
9. What approach was used in developing these strategies? Was it deliberate or resultant?
10. What role did your parent company play in the development of these strategies?
11. What aspects of your business were targeted in the value innovations deployed above? Which year?

12. What were some of the competitive drivers that forced you to consider this approach?
13. What part of the business were re-oriented towards gaining stronger customer value proposition through this strategy? What was the impact on the manufacturing process? What was the impact on product distribution and promotion?
14. Which departments were explicitly involved in the blue ocean strategy development and supervision of implementation process?
15. What review systems are in place at Bamburi Cement Limited to monitor and evaluate the effectiveness of the blue strategies?

Section C: Relationship between Performance and the Blue Ocean Strategy

During the critical phases of the fifteen year period, how did developing and implementing the blue ocean strategies of simultaneous pursuit of cost leadership and differentiation to create innovative value, contribute significantly to:

1. How did developing and implementing the blue ocean strategy lead to improved profitability of the organization? What has been the impact over the last five years of intense competition?
2. How did this strategy enhance cost control objectives across the organization? What has been the impact over the last five years of intense competition?
3. How did this focus on simultaneous low cost and differentiation strategy lead to increasing efficiency in the management of its supply chain? What has been the impact over the last five years of intense competition?

4. What was the impact on the overall customer perception of its products and services? What has been the impact during the last five years of intense competition?
5. What was the impact on improving the market performance in Kenya and Uganda? What has been the impact during the last five years of intense competition?
6. What was the impact on increased shareholder value?

Please provide additional details for each area above, especially where your function was directly concerned.

Thank you for providing these valuable insights.

Appendix II: Secondary Data Collection Form

<u>Financial and Market Data Collection Form</u>

Year	Group Turnover	Operating Income	Profit After Tax	Earnings per Share	Market share Kenya	Market Share Uganda	Shareholders' Equity
2013							
2012							
2011							
2010							
2009							
2008							
2007							
2006							
2005							
2004							
2003							
2002							
2001							
2000`							
1999							

Appendix III: Financial and Market Data

Year	Group Turnover (Ksh, Bn)	Operating Income (Ksh, Bn)	Profit After Tax (KSh, Bn)	Earnings per Share (KSh)	Market share Kenya	Market Share Uganda	Shareholders' Equity (Sh Mn)
2013	33.9	5.2	3.9	9.55	39%	31%	28,930
2012	37.5	6.8	5.0	12.17	42%	31%	28,386
2011	35.9	8.0	5.9	14.44	52%	33%	22,028
2010	28.1	7.3	5.3	14.02	61%	32%	20,165
2009	30.0	7.7	6.7	14.41	64%	31%	19,497
2008	27.5	6.1	3.4	11.54	62%	32%	15,496
2007	22.1	5.5	3.8	9.91	63%	33%	14,229
2006	16.5	4.0	2.7	7.2	64%	35%	13,017
2005	14.4	3.3	2.3	5.52	62%	40%	10,678
2004	12.3	2.7	1.95	4.73	63%	45%	9,863
2003	10.4	1.8	1.2	2.94	62%	51%	11,012
2002	10.1	2.2	1.4	3.38	61%	50%	9,877
2001	8.9	1.6	0.9	2.01	59%	55%	10,067
2000`	7.7	1.0	0.3	0.8	58%	54%	8,981
1999	6.8	1.1	0.6	1.74	57%	55%	8,923