STRATEGIC RESPONSES ADOPTED BY MEMBERS OF KENYA MOTOR INDUSTRY ASSOCIATION TO THE CHANGING ENVIRONMENT

A MANAGEMENT RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF THE MASTER IN BUSINESS ADMINISTRATION DEGREE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

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Declaration

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

Signed.. Date 17|3|2011

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This project has been submitted for examination with my approval as university supervisor

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Dedication

To God for giving me the strength, good health and favor throughout my MBA programme.

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ABSTRACT

Kenya's macro environment has undergone a number of changes. This has made firms to come up with strategies that would help them to be successful in this environment. The motor industry has also been affected by some of these changes like liberalization and globalization which have made the formal motor sector to come up with strategies that will adapt to the changing environment.

The study objectives were to establish the environmental challenges facing the members of the Kenya Motor Industry Association and how they responded to these challenges. The study covered 16 members of the Kenya Motor Industry Association. Data was collected using questionnaires which were administered using drop and pick method. Personal interviews were conducted for clarification. Data is analysed using descriptive statistics, which involves mean scores used to show the average effect of the environment changes, the standard deviation used to check the variability from the mean and the mode has been used to evaluate the most popular strategy undertaken.

The study found out that the motor industry faces a lot of challenges including economic, political, social-cultural and technological factors. The prevalent factors are currency fluctuation, inflation, changes in consumer buying patterns, import regulations and tax regimes. The industry focuses on particular clientele, market segments and differentiation in response to the changing environment mostly due to the competitive forces that exist in the environment. Depending on the age of the firms, different strategies are undertaken.

CHAPTER ONE: INTRODUCTION

1.1. Strategic Response Concept

Strategy is the direction and scope of an organisation over a long period of time, which achieves advantage for the organisation through its configuration of resources within a changing environment, to meet the needs of the market and fulfill stakeholders' expectations (Johnson and Scholes, 2002). Strategy can therefore be seen as matching of resources and activities of an organisation to the environment in which it operates the strategic fit (Porter, 1980). A company strategy is about how management intends to grow the business, how to build loyal clientele, how to compete with rivals, how each functional pieces of the business will be operated and how to boost performance (Thompson, Strickland and Gamble, 2007).

The strategic responses that a firm chooses are not easy decisions and some of them may turn out to be wrong but this should not be a hindrance for not coming up with concrete decisions (Thompson et al., 2007). Firms have found themselves in a position where they not only have to address environmental changes but actually anticipate them. Liberalization and globalization have opened up markets to environmental forces. This has made firms rethink their strategies (Pearce and Robinson, 1997).

Strategic response therefore involves changes in the firm's strategic behaviour and ensures success in transforming the future environment (Ansoff and McDonnell, 1990). Pearce and Robinson (1997) defined strategic response as the set of decisions and actions that result in formalization and implementation of plans designed to achieve a firm's objective.

Organisations are environmentally dependent therefore they need to employ strategic responses in order to adapt to the changing environment. This will make firms to be successful and effective in their business (Johnson and Scholes, 2002). Firms can only respond effectively if the environment has been analyzed to identify the opportunities to exploit and risks to avoid.

1.1.2 The Motor Industry in Kenya

The motor industry can be defined as an amalgamation of companies that manufacture and /or distribute vehicles including passenger cars, trucks, motor cycles, light and heavy commercial vehicles. Sobti (2003) defined the motor industry as automobile sector comprising of companies manufacturing/marketing all motor vehicles including 2-3 wheelers, passenger cars and multi utility vehicles, light and heavy commercial vehicles. This industry is further divided into two; the formal and informal sector. The informal motor vehicle sector comprises of imports of both new and used reconditioned vehicles whereas the formal sector deals with the assembling, manufacture of vehicles done in the country. This industry is one of the most important economic sectors by revenue, transportation and employment in Kenya.

Up to the early 1990's, Kenya used to boast of a robust vehicle assembly industry that supplied the country and the African region. Hundreds of Kenyans were engaged in these plants and their suppliers and skills flowed in briskly (Wachuka, 2008). With the liberalization of the motor industry, second hand imports flooded the market effectively killing the industrialization dream as far as vehicle assembly was concerned (Mwenda, 2002).

In response to the growing complexity of the industry and market issues, the Kenya Motor Industry Association (KMI) was formed in 1989 to co-ordinate commercial realities with national policies so as to provide a high-level forum within the industry and to create a single focal point of consensus and communication with government, other associations and the public. It is therefore important for the members of the Kenya Motor Industry Association (KMI) to come up with strategies that will give them a competitive edge in the market.

2009 was yet another bad year for firms in the formal motor vehicle sector as the statistics from Kenya Motor Industry (KMI) show that the industry has remained resilient in the face of major political and economic challenges. During the year the local industry registered more than 22% drop in new car sales due to the decline of major industrial sectors and direct government spending. Due to the decline in sales, the members need to come up with strategies that would enable them compete with the second hand motor vehicle firms (Business Daily, 10 June 2010).

Table 1.1: Production of Assembled Vehicles

Month	2007	2008	2009	*2010
January	450	468	379	299
February	516	592	556	521
March	565	388	517	510
April	532	601	494	438
May	574	575	341	
June	481	487	326	
July	456	468	482	
August	589	440	388	
September	566	488	373	
October	718	503	391	
November	658	435	464	
December	437	302	349	
	8549	**7755**	**7069**	**1768**

Source: Kenya National Bureau of Statistics (2010)

**Provisional*

1.3 Statement of the Problem

Strategic responses are the decisions and actions that are meant to achieve business objectives and purpose. Johnson and Scholes (1999) argue that after environmental analysis the firm will choose a strategy in response to the opportunities and threats it is facing.

The motor industry environment has undergone many changes and as a result the members of the Kenya Motor Industry Association (KMI) need to continue assessing its environment and come up with strategies that will enable them respond effectively to the changes. The members serve around 38.6 million people and hence it is important for them to come up with strategies that are in line with the changes in the environment.

Various scholars have carried out research on the strategic responses to the changing environment within Kenyan organisation. Some of these include Kombo (1997) motor vehicle franchises, Nkirote (2004) Mortgage industry and Kubunya (2008) City council of Nairobi.

With the changes in the environment, it has necessitated the need to know how the players in the formal motor sector have responded to these changes. The members of the Kenya Motor Industry Association (KMI) will be used for this study as it intends to answer the question, what are the strategic responses that have been adopted in the industry.

1.4 Objectives of the Study

The objectives of the study are:

a) To identify environmental challenges facing members of the Kenya Motor Industry Association.

b) To determine the strategic response by members of the Kenya Motor Industry Association to the changes in the environment.

1.5 Value of the Study

This study will be important to policy makers who could use this information and find ways in which they can make the market favourable for the motor industry firms to operate in and as a result sustain their revenue. The researchers and academic community could use this study as a stepping-stone for further studies on strategic management.

Lastly the management of the members of the Kenya Motor Industry will find the study invaluable in making decisions regarding how to respond to the changing environment and the challenges they are likely to encounter.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter will cover the relevant literature, which will provide a theoretical foundation to satisfy the purpose of the research. We shall look at the organisation and environment, what has been happening in the motor industry and the strategic responses to the changing environment

2.2 Organisation and its environment

Managers, whether in the public or private sector, need to make sense of the uncertain world around their organisation. It is difficult to make sense due to the diversity, complexity and the speed of change in the environment (Johnson and Scholes, 2002).

Insightful diagnosis of a company's external and internal environment is a prerequisite for managers when they are coming up with strategies that are strategically fit with the organisation's current situation (Thompson et al. 2007), which are capable of building competitive advantage and hold good prospect for boosting company performance. All organisations operate in a macro environment, which is shaped by influences from the economy at large. The macro environment can therefore be defined as all the relevant factors and influences outside the organisation's boundaries (Thompson et al., 2007). It is important to build up an understanding of how changes in the macro environment are likely to impact an individual organisation. PESTEL framework can be used to identify how future trends in the political, economic, social, technological, environmental and legal environments might impact the organisation (Johnson and Scholes, 2002).

Economic factors reflect the financial conditions in the country. Some of these conditions include interest rates, inflation, unemployment rates, gross national product, and the value of the Kenya Shilling against other major currencies. The economy changes over time indicating that economic development is in direct interest to markets and business people generally. Such an 'economy–watching' process may enable vigilant companies to respond in time to scenarios such as recession, inflation and recovery (Adcock, 2001). The foreign exchange requirements on petroleum, for example, take around 20 per cent of the national foreign exchange requirements for imports. Therefore, in comparison to the other sectors for foreign exchange, an increase or decrease in demand for fuel would have an implication on the foreign markets (Mwenda, 2002) and as a result increase or decrease in demand in vehicles.

On the other hand, the socio-cultural factors are the foundation of inspirations, outlook and activities that are a part of the human affairs. These factors define the acceptability and sales of that product. However, the business is subjective to change by the actions of customers because of their approach and activities, which alter depending on various factors such as maturity level, type of vocation, and spare time activities. Most changes in basic cultural values and social attitudes, which come slowly, a firm, cannot hope to encourage big changes in the short run but should instead identify the current attitudes and work within theses constraints as it seeks new and better opportunities (McCarthy, 1993).

The natural factors impact the organisation's choice of venture and the policies that have been put in place to discourage organisations to venture in activities promoting degradation of the environment. In contrast, the environment is made up of all the nature's gifts bestowed upon us ranging from land, water and air. Progressively, more organisations have turned out to be alert to the link between their cost-effective measures and making sure the natural environment is not at stake at any cost. All vehicles contribute to increased toxins in the atmosphere, hence the manufacturers need to come up with ways in which their outputs will have minimum impact on the environment in terms of pollution, traffic jams, increased accident risks (Mwenda, 2002)

Technological factors impact the scientific processes used in changing inputs (resources, labour and money) to outputs (goods and services). The success of many organizations depends on how well they identify and respond to external technological changes. A firm has to be aware of the technological changes in the industry to avoid obsolescence and promote innovation. Creative technological improvements suggest a likelihood of new products, improvements in the existing products due to new manufacturing technique (Nkirote, 2004). For example, one of the most significant technological dimensions of the last several decades has been the increasing availability and affordability of management information systems. Through these systems, managers have access to information that can improve the way they operate and manage their businesses.

Political-legal factors include regulatory parameters within which an organization must operate. Political parties create or influence laws, and business owners must abide by these. Tax policies, trade regulations and minimum wage legislation are just a few examples of political and legal issues that may affect the way an organization operates. Though there are some political actions that have been placed to protect and benefit the firms (Pearce and Robinson, 1997), in Kenya, one cannot import a vehicle that is older than 8 years. This helps to reduce dumping.

2.3 Kenya Motor Industry

In the past and before the second hand motor vehicles, the motor industry in terms of participation or outright purchase was perceived to be of a privileged few. This scenario was largely attributable to the absence of clear government policy in the industry (Mwenda, 2002). In regard to the social-economic status the citizen has been seriously hampered with man-hours lost due to lateness and early takeoff from work places.

Structural adjustment programmes (SAPs) advocated for liberalization and replaced some the industry policies such as 'import substitution'. This meant that individuals were able to bring in vehicles that are not more than 8 years old into the country. Since the values of the vehicles were low they would attract less duty and this translated to a lower total cost to the buyer. There have been an increased number of second hand vehicles being imported each year. 24,454 vehicles were imported as at July 2010 compared to 19,088 for the same period last year; this is according to Japan Export Vehicle Inspection Centre (JEVIC, 2010).

This sudden opening of the Kenya economy caught some players in the industry unprepared to face competition. Players from both sectors have been involved in bitter rivalry with the government being accused of not providing a level playing field. New dealers contend the tax regime, which favors importers of second hand vehicles. The second hand importers argue that local assemblers have been asleep as they have not realized that Kenyans are seeking low-priced vehicles and not just '*mitumbas*' due to the diminishing purchasing power (Mwenda, 2002).

A report by PWC, indicates that KMI is following up with the government on ways to level the playing field with the importers of second hand vehicles through implementation of strict criteria on importation of second hand vehicles, incentives to promote local assembling of commercial vehicles and export incentives aimed at encouraging car manufacturers to expand operation in the region.

2.4 Strategic Response to the External Environmental Changes

Strategic responses are influenced by environmental factors. Changes in the environment will lead to changes in objectives and strategies (Pearce and Robinson, 2007). The environment is complex and ever changing and it will continue changing rapidly, radically and unpredictably (Burnes, 1996). Managers therefore need to review their strategies to match with the environmental demands.

Challenges in the environment call for real time response throughout the year which includes detecting unforeseen changes and taking the appropriate action, increasing the time for response to be able to manage and monitor the rapid changes and respond in real time as and when the need demands. Timely response is critical to adverse effects or missed opportunities. Costs of non-response could lead to lost profits and cost the cost of reversing the loss.

Different levels of environmental turbulence have unique characteristics and require different strategy and different firm's capabilities. The strategy chosen should match with the level of turbulence. Sustaining the bases of competitive advantage is likely to require a linked set of organisation's competences which competitors would find it difficult to imitate or the ability to achieve a 'lock in' position to become the industry's standard recognized by supplies and buyers.

Porter (1980) from his model of generic strategies suggested that the most fundamental choices facing any business are the scope of the market that it attempts to serve and how it will compete in the chosen market. Organisations achieve competitive advantage either by having the lowest product cost or having differentiated products, which are valued by customers.

Cost leadership strategy should emphasise on efficiency, hence firms should continually look for ways of taking advantage of economies of scale and experience curves (Porter, 1980). Hence a company must do a better job than its rivals by cost effectively managing value chain activities and /to find innovative ways of eliminating cost producing activities (Thompson et al. 2007). This strategy works well when products of the competitors are identical and supplies are readily available from the suppliers. As a result buyers end up being price sensitive and they shop around for the lowest prices.

Differentiation implies a difference in the perception by clients of the product and worth paying for. Firms that are successful in their strategy are able to command a premium price, increase their sales and gain buyer loyalty to its brand. This strategy works well where markets have diverse buyer preferences. The major weakness of this strategy is that firms will lose the competitive advantage when competitors are quick to imitate them.

Under the focus strategy, a firm can deliver low costs or deliver specialised ability to offer the buyers an appealing differentiated offering. This strategy is attractive when the market niche is big enough to be profitable while offering growth potential (Thompson et al., 2007).

The hybrid strategy seeks to simultaneously achieve differentiation and lower prices than competitors. Though the success of the strategy depends on the ability to both understand

and to deliver enhanced value in terms of customer needs, whilst also having a cost base that permits low prices and is sufficient for reinvestment to maintain and develop bases of differentiation (Johnson and Scholes, 1999).

There are additional routes that an organisation can respond strategically to the environment. They are strategic alliances and collaborative partners, mergers and acquisitions, outsourcing, vertical integration both forward and backwards, use of the internet, defensive and offensive strategies, product innovation, delivering superior customer service, convenient location, technological expertise, better production techniques, better supply chain management to mention a few.

Strategies of collaboration may offer alternatives to competitive strategies like game theory which provides a thinking basis through which competitors move in such a way as to pre-empt/counter them (Johnson and Scholes, 2002). Strategic alliances and collaborative partnerships help organisations race to build a global market presence. Strategic alliances are attractive and flexible and often cost effective which means firms are able to access missing technology expertise and business capabilities

Mergers and acquisitions are another way of strengthening a firm's competitiveness. If operations of two companies are combined, the new company competitiveness can be enhanced to offer lower costs, acquire stronger technological skills, better competitive advantage, more product offering, wider geographical coverage and great financial resources to invest in research and development, this can also lead to expansion new markets.

Vertical integration, forward or backwards makes strategic sense only if it strengthens a company's position by either cost reduction or creation of differentiation based advantage. Outsourcing pieces of the value chain formerly performed in-house can enhance competitiveness whenever an activity can be performed cheaply. If the activity is not crucial to the firm's ability to achieve sustainable competitive advantage and would not hollow out its core competences, or reduce the capability of technical knowhow and company risk exposure to changes in technological or buyer preferences, it should streamline the company's organisational flexibility, cut the cycle time, speed decision making, reduce coordination costs and allow the company to concentrate on the core business.

There has been an increased need to feature how internet can be used to position the organisation in the market. For firms to remain competitive, they need to have an internet strategy where they can use the internet as a marketing tool for their products (Ntara, 2007).

Organisations can use offensive strategies to improve their market position and try to secure competitive advantage. A blue ocean strategy seeks to gain a dramatic and durable competitive advantage. This gives a company an ample opportunity to grow profitably and rapidly. The demand in this case is created instead of being fought over; this is because the rules of the game are waiting to be set. Whereas defensive strategy protects a company's position and usually takes the form of making moves that put obstacles in the path of would be challenges and fortify the company present position while undertaking actions to dissuade rivals from even trying to attack.

Once all the higher level strategies have been made, mangers have to turn to the task of crafting functional and operating level strategies to flesh out the details of the company's overall business and competitive strategy. The timing of the strategic move also has relevance in the quest for competitive advantage. The time element has considerable influence on the strategic response chosen. Wright (1974) indicates that under such time constraint managers put greater weight on negative than positive information and prefer defensive strategies. A good strategy may be disastrous if undertaken at the wrong time. Logically, strategic choice will be strongly influenced by the match between management's current time horizon and the lead time associated with different choices (Pearce and Robinson, 1997). Managers have to consider the advantages and disadvantages of being the first mover verses fast learner verses late mover (Thompson et al., 2007). The strategy chosen is the most important strategic commitment a company makes as it will drive the rest of the strategic actions. This results to a tone being set which will be used to pursue its competitive advantage.

2.5 Factors that influence the Strategic Response

Strategic decision makers, after comprehensive strategy examinations are often confronted with several viable alternatives rather than the luxury of devout obvious choice. Under these circumstances there are some factors that influence their decisions. They include the role of past strategies, mission and vision, leadership, corporate culture, management attitude towards risk, timings, pressure from the stakeholders, needs and desires of key managers (Ndiao, 2001).

Mintzberg (1972) suggests that past strategy strongly influence current strategic response. The older and more successful strategy has been the harder it is to replace. He also found out that even as strategies began to fail due to changing conditions, strategists often increased their commitment to their past strategy. This forces firms to replace key executives when performance has been inadequate for an extended period since replacing top executives lessens the influence of unsuccessful past strategy on future strategy choice (Pearce and Robinson, 2002).

Mission and vision play a vital role on how the organisations respond to the environment. In a business world an organisational mission is generally defined as the broadly stated identification of the business' basic scope and operations that distinguish it from other organisations. A substantial disagreement within the organisation or with stakeholders to its mission, might lead to real problems in the strategic direction of the organisation (Johnson and Scholes, 2002). The mission should clarify if the organisation wants short/ long term profits, focus on highly related business or a more diversified set of business, to a global coverage or to focus on selected countries, to invest in internal innovation and new products. Clarity of mission provides a basis on which future strategies are likely to be made.

The direction of the organisation is determined by the strategic response taken by its leadership. Bourgeois (1984), top management have a certain amount of discretion to choose the course of action that serve to align organisational resources with its external environmental opportunity and to serve the values and preferences of management. Ndiao (2001) stated that organisations need strategic leaders to help it overcome inhibitions on risk taking and resource allocation.

All organisations have a culture. It is therefore beneficial to view strategic management from a cultural perspective because success often rests on the degree of support that strategies receive from a firm's culture. If a firm's strategies are supported by cultural products such as values, beliefs, rites, rituals, ceremonies, stories, symbols, language, heroes, and heroines then managers often can implement changes swiftly and easily. Strategies that require fewer cultural changes may be more attractive because extensive changes can take considerable time and effort. All organizations are political. In the absence of objective analyses, strategy decisions too often are based on the politics of the moment. With development of improved strategy-formulation tools, political factors become less important in making strategic decisions.

The attractiveness of a particular strategic alternative is partially a function of the amount of risk it entails (Wheelen and Hunger, 2008). They go on further to state that managers who own a significant amount of stock in their firms are more likely to engage in risk taking actions than managers without stock. These attitudes exert considerable influence on the strategic response. An assessment of the organisation in the market will determine the strategic option to be chosen. Attitude toward risk exert considerable influence on strategic response. These attitudes vary from eager risk taking to strong aversion to risk and hence influence a range of available strategic choices. Assessment of the organisation in the market will determine the strategic option to be chosen. Although assessment of the strengths and weakness and of opportunities and threats facing the organisation can have objective basis, they are often influenced by subjective perceptions and interpretations (Schneider and Arnaud de Meyer, 1985).

Wheelen and Hunger (2008) argue that the attractiveness of a strategic alternative is affected by its perceived compatibility with the key stakeholders in a corporation's task environment. Examples of stakeholders include creditors who want to be paid on time, unions which ensure that organisation offer comparable wages, shareholders would like to be paid dividends and social groups which expect the organisations to be socially responsible. The dependence of a firm to its action environment can be measured rigorously with the help of some relevant parameters. This dependence expressed quantitatively is joined by a qualitative, subjective one, which gives an expression to the perception of decision factors concerning the environmental impact over the firm's business. The firms which have almost closely competitive forces can be led by managers who perceive them differently, sometimes, even exactly contrary, in what concerns their strategic force and their competitive position in the environment. The managers of a firm can appreciate it as being weak competitively, the others as being strong, depending on the respective perception the strategic choice is made for a strategic type or another. They go on further to add that managerial priorities are usually different from stakeholder interests therefore the agency theory should be put in place to ensure that managers don't place their own interests before the stakeholders (Pearce and Robinson, 2002).

They further state that the managerial perception is what concerns the external dependence of a firm and of its business. The bigger the firm's dependence of owners, producers, clients, creditors, public institutions etc the more limited is the range of strategic choice and its optional act is less flexible. The probable impact of competitor response must be considered during the strategy design process this is due to the fact that a competitor's response can alter the success of a firm's strategy.

Even the most attractive alternative might not be selected if it's contrary to the needs and desires of top managers since personal characteristics affect a person's assessment of alternative attractiveness (Wheeler and Hunger, 2008). Therefore the agency theory should be put in place to ensure that managers don't place their own interest before the stakeholders (Pearce and Robinson, 2002).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The research design, data collection instrument and data analysis procedures will be highlighted in this chapter. This will help the researcher to meet the study objectives.

3.2 Research Design

The research is a survey. Tull and Hawkins (2002) defines survey research as a systematic gathering of information from respondents with the purpose of understanding and / predicting some behavioral aspect in a given population. This method enables the researcher to ascertain and describe the characteristics of the environmental changes, how members of Kenya Motor Industry Association respond to these changes. Surveys are undertaken to understand organisations characteristics that follow a certain practice.

3.3 Population

A census was conducted for this study. A census is undertaken when the population of the study is small and it will be feasible in terms of cost, time and accuracy. The population of study will be members of the Kenya Motor Industry Association and the focus will be on the 16 members who are involved in the vehicle assembly, service, sellers of parts and new vehicle sellers. This data was as at August 2010.

3.4 Data Collection

Primary data was collected through the use of a questionnaire. A questionnaire is a series of questions asked to individuals to obtain statistical information on a topic. When properly constructed and responsibly administered it is vital instrument by which statements can be made about people, groups or a population. The target respondents were the CEO's of the selected organizations or Senior Managers with thorough understanding of the organization. The "drop and pick" method was used to collect data for motor industry firms. This was followed up with telephone calls to ensure that the questionnaire had been received. The questionnaires were picked up during which time completeness was verified and personal interviews undertaken to clarify answers where necessary.

3.5 Data Analysis

Quantitative data analysis is employed to summarise the data and conclusions and recommendations are drawn. Primary data from the questionnaires on strategic response is analysed using descriptive statistics. Mean scores, mode, frequency tables, percentages were used to interpret the data and results presented in tables, graphs and charts. The results aim to reflect the general trend on the strategic response employed by the members of the Kenya Motor Industry Association.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the analysis and findings of the study. The study is concerned with the strategic responses that have been undertaken by the members of Kenya Motor Industry. This study aims to identify the environmental challenges and how the members have responded to these challenges.

4.1.1 Response rate

The questionnaire was distributed to 16 companies out of which 10 were fully completed for analysis. This gives a response rate of 62.5 percent.

4.1.2 Industry profile

This section covered the general overall picture about the industry. 50 percent of the firms have been in operation in Kenya for over 40 years and 30 percent have been in operation for less than 10 years. This shows that this has been a long serving industry.

Table 4.1 Nature of Ownership

Ownership	**Frequency**	**Percentage**
Local	8	80%
Foreign	1	10%
Both	1	10%
Total	**10**	**100%**

Source: Research Findings n=10

Table 4.1 indicates that 80 percent of the firms are locally owned; 10 percent have a foreign ownership whereas the other 10 percent have both local and foreign ownership.

Table 4.2 Facilities offered

Facilities Offered	**Percentage**
Assembly of vehicles	40%
New vehicles	70%
Motor vehicles parts	90%
Services	90%
Other	50%

Source: Research Findings n=10

Motor vehicle parts and services top the facilities offered by the members of the Kenya Motor Industry. This was followed by the sale of new vehicles. Table 4.2 indicates the level of facilities that are offered by firms.

90 percent of the firms have branches in the country and in the major cities. All members had more than two brand lines in the product range.

4.2 Environmental Changes and its Impact

In this section, the impact on the different environmental changes as had on the motor industry was analyzed. Various environmental factors were listed and respondents were asked to rank the extent to which they agreed on the environmental impact has had on the firms where '1' was taken to indicate 'no extent' while '5', 'a very large extent'.

Table 4.3 Political Factors

Political Factors	Mean	Standard Deviation
Tax regimes	3.80	0.632
Import regulations	3.90	1.287
Minimum regulation	2.56	0.726
Total Political Factors	3.46	0.822

Source: Research Findings n=10

Under the political factors; tax regimes, import regulations and trade regulations were addressed. Import regulations significantly contribute to these factors and have a mean of 3.90 and standard deviation of 1.287. Tax regime is the other factor that contributes significantly under the political factors where it has a mean of 3.8 and a deviation from the mean of 0.632.

Table 4.4 Economic Factors

Economic Factors	Mean	Standard Deviation
Consumer buying patterns	3.70	0.949
Economic growth rate	3.50	1.434
Currency fluctuation	4.30	0.823
Inflation	3.70	0.823
Uncertainty	3.50	0.756
Financial institution lending policies	3.10	0.994
Global economic conditions	3.50	0.707
Total industry	3.65	0.512

Source: Research Findings n=10

Economic factors that were investigated were; consumer buying patterns, economic growth rate, currency fluctuations, inflation, global economic conditions, uncertainty and lending policies of financial institutions. Currency fluctuation contributes to a large extent to the economic factor with a mean of 4.30 and a standard deviation of 0.823 whereas the lending policies have the least effect on the economic factors with a mean of 3.10 and a standard deviation of 0.994.

Table 4.5 Social-Cultural Factors

Social- Cultural Factors	Mean	Standard Deviation
New product perception	3.20	0.919
Changes in the consumer buying behavior	3.20	0.919
Customer status	3.30	1.059
Total industry	3.23	0.721

Source: Research Findings n=10

New product perception, changes in consumer buying behaviour and customer status were the social-cultural factors investigated. The effect that these factors have is moderate with a mean of 3.23 and a standard deviation of 0.721.

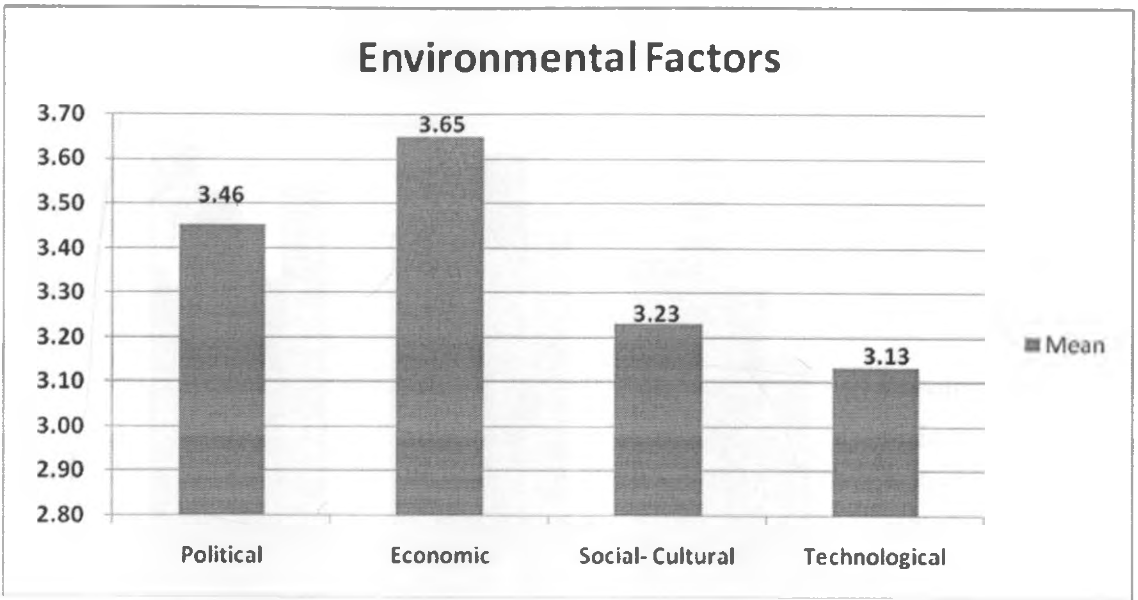
Table 4.6 Technological Factors

Technological Factors	Mean	Standard Deviation
Product Innovation	3.50	1.354
Cost of getting new technology	3.20	1.549
Staff incapability to cope with the technological changes	2.70	1.337
Total industry	3.13	1.199

Source: Research Findings n=10

Cost of new technology, product innovation and staff incapability to cope with the technological changes were investigated under the technological factors. Product innovation has the highest mean of the three components that were addressed and has a mean of 3.5 and standard deviation of 1.354.

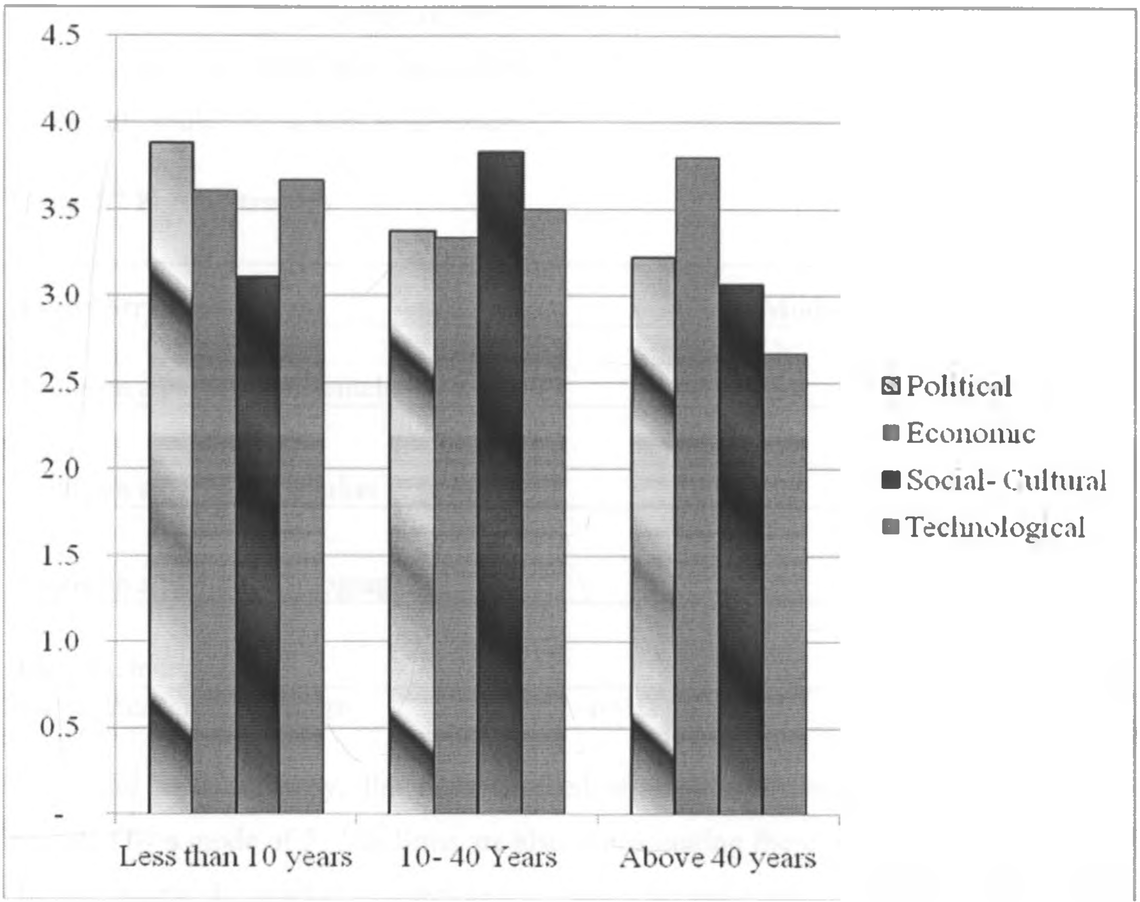
Figure 4.1 Environmental Factors and the Extent of Impact to the firms



Source: Research Findings

Figure 4.1 gives a summary of the impact of the environment on the members of the Kenya Motor Industry Association. Economic factors significantly affected environment had a mean of 3.65 this was followed by the political factors with a mean of 3.46.

Figure 4.2 Company Age and the Effect of the Environmental Change



Source: Research Findings

Figure 4.2 gives a full picture on the extent of environment change compared to the firm's age. Firms that are less than 10 years were affected to a large extent mostly by the political, economical and technological factors. Firms that have been around for over 40 years were moderately affected by the environmental factors.

4.3 Strategic Response to the Changing Environment

In this section, various strategic responses were listed and the respondents were asked to rank the extent to which they have adopted the strategy where '1' was taken to indicate 'no extent' while '5', 'a very large extent'.

Table 4.7 Focus Strategy

Focus Strategy	Mode
Focus on a particular clientele	4
Focus on a particular market segment	4
Focus on a particular geographical area	4
Increase market share	5

Source: Research Findings n=10

Under the focus strategy, the most favored strategy is to increase market share as indicated by a mode of 5. The firms are also concentrating there strategies on a particular clientele, particular market segment and on particular geographical area as indicated by a mode of 4. Table 4.7 gives a summary on the focus strategy.

Table 4.8 Differentiation Strategy

Differentiation Strategy	Mode
Having the best technology	5
Being the best customer service	5
Being the cost leader	3
Branding the organisation	3

Source: Research Findings n=10

Having the best technology and the best customer service are the most favored strategies under differentiation strategy with a mode of 5. Cost leadership and organisation's branding has a low mode of 3 as indicated in Table 4.8

Table 4.9 Cost Strategy

Cost Strategy	**Mode**
Cost minimization in research and development, marketing and advertisements	3
Cost reduction in most departments	4
Reducing workforce through normal retirement	3
Laying off of staff	2
Reduced production	2

Source: Research Findings n=10

Table 4.9 gives the components addressed under the cost strategy; cost reduction in most departments is the most favored strategy with a mode of 4. Laying off staff and reduced production are the least favored strategies with a mode of 2.

Table 4.10 Diversification Strategy

Diversification	**Mode**
In related business	5
In unrelated Business	1

Source: Research Findings n=10

Most firms have engaged in related business as indicated by a mode of 5 in Table 4.10. Respondents indicated that that they have not ventured in unrelated businesses with a mode of 1.

Table 4.11 Strategic Alliances and Collaboration Strategy

Strategic Alliances and Collaborations	Mode
Suppliers	5
Customers	5

Source: Research Findings n=10

Table 4.11 shows the strategic alliances and collaboration strategies undertaken with the suppliers and customers. Firms have collaborated and formed alliances with the suppliers and customers as indicated with a mode of 5.

Table 4.12 Mergers and Acquisitions

Mergers and Acquisitions	Mode
Have you acquired a new business line in the last 5 years	1

Source: Research Findings n=10

Table 4.12 looks at mergers and acquisition. Few firms have acquired or merged their business lines in the last 5 years as indicted by the mode of 1.

Table 4.13 Outsourced Activities

Outsourced activities	Frequency
Public Relations	2
Transportation	2
Security	1
Building of Trailers	1
Advertising	1
Office cleaning	1
Training	1
Assembly of vehicles	1
Warehousing of vehicles	1
Logistics	1
Sales and Marketing	1

Source: Research Findings n=10

Table 4.13 addresses the outsourced activities, public relations and transportation are the most favored activities. Securities, building of trailers, advertising, office cleaning, training, warehousing of vehicles, logistics, sales and marketing are other outsourced activities.

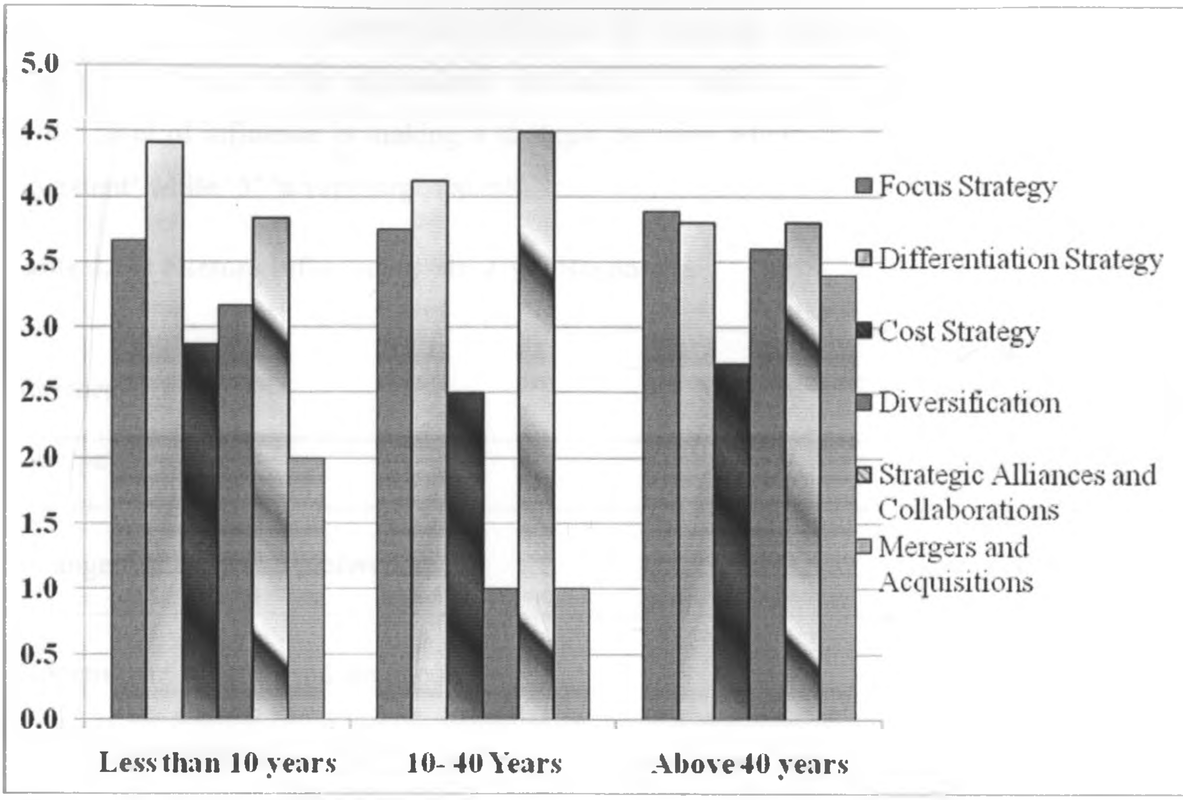
Table 4.14 Strategic Responses

Strategic responses	Mean	Standard Deviation
Focus Strategy	3.79	0.37
Differentiation Strategy	4.05	0.67
Cost Strategy	2.72	0.54
Diversification	2.95	1.44
Strategic Alliances and Collaborations	3.95	1.17
Mergers and Acquisitions	2.50	1.65
Outsourced activities	3.57	

Source: Research Findings *n=10*

Table 4.14 gives a summary of the strategies with their means and standard deviation. The strategy with the highest mean of 4.05 is differentiation with a standard deviation of 0.67. The strategy with the lowest mean of 2.5 is merger and acquisition strategy with a standard deviation of 1.65.

Figure 4.3 Strategic responses taken compared to the firms age



Source: Research Findings

Figure 4.3 gives a summary of the strategy chosen given a firm's age. Firms responded differently depending on how long they have operated in the country. Firms that have been operating for less than 10 years, differentiation strategy is favored and the least favored is the merger and acquisition strategy. Firms that have operated over 40 years, focus strategy is preferred to respond to the environment and the cost strategy is the least favored.

4.4 Factors influencing Strategic Responses

In this section, various factors that influence the strategy response are analyzed. The factors were listed and the respondents were asked to rank the extent to which they agree on the level of influence in making a strategic decision where '1' was taken to indicate 'no extent' while '5' 'a very large extent'.

Table 4.15: Factors influencing Strategic Responses

Factors	**Mean**	**Standard Deviation**
Competitive forces	4.2	0.632
Changes in tastes and preferences	3.5	0.850
Government Policies and decisions	4.1	1.197
Role of past strategies	3.8	1.033
Mission and Vision of the organisation	4.0	1.155
Corporate culture	3.9	1.101
Management Attitude towards risk	4.0	0.707
Timings	3.9	1.101
Pressure from stakeholders	3.4	1.430
Needs and desires of Key managers	3.5	1.179

Source: Research Findings *n=10*

Table 4.15 focuses on the factors that influence the strategic responses. The results show that competitive forces prompt the response chosen as indicated by a mean of 4.2 and a standard deviation of 0.632. Government policies and decisions contribute significantly to the response that is chosen by the industry players. The results also show that the mission and vision of the firms is a significant factor as indicated by a mean of 4.0 and standard deviation of 1.155. Management's attitude towards risk also plays a big role in decision making in regards to the response chosen as indicated by a mean of 4.0 and a standard deviation of 0.707.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATONS

5.1 Introduction

This chapter gives a summary of findings and conclusions drawn from the study. Limitations of the study and recommendations for further research are addressed.

5.2 Summary and Conclusions

The objective of this study was to determine the strategic responses adopted by the members of the Kenya Motor Industry to the changing environment and its challenges. From the general findings, the motor industry is a long serving industry with 50 percent of the firms having been in operation for over 40 years. Due to the presence of branches it shows that there is wide geographical coverage of firms in this industry. With most members having more than two brand lines, it represents the firms' efforts to meet their clientele needs and diversity. In view of the respondents' mission and vision statements their main focus is meeting their customers' needs and is also a major factor that guides them on which strategic decisions to take.

Import regulations and tax regimes have played a significant role under the political factors. This has made firms to form alliances that would help them to lobby for lenient importation and tax regulations that would help them operate optimally in the industry.

Currency fluctuations and consumer buying patterns are major economic factors affecting the macroeconomic environment. This has prompted the industry players to diversify their business in related business lines and to offer innovative products to meet customer needs.

Under social-cultural, consumer status is significant factor under the environmental factors. This has made firms to focus on this particular clientele and adopt market segmentation to gain competitive advantage and increase the firm's presence in the market.

Differentiation strategy is favoured and is used to address the environmental changes. Under this strategy firms strive to offer the best customer service compared to their competitors. This was followed with the use of technology to create a variety of brand lines. Firms with more brand lines have a higher competitive edge than those with fewer brand lines

Strategic alliance and collaborations with suppliers and consumers contributed significantly in dealing with the environmental changes. These alliances lead to cost reduction and improved customer offering. They are also used to enter new geographical markets.

Changes in the buying trend have lead firms to change strategically in response to the customer needs. They are able to do this by diversification in related business lines so as to add more value within their value systems.

The firm's age plays a major role in the choice of strategy in response to the changes in the environment. Firms that have operated under 10 years are mostly affected by political factors which have prompted them to use differentiation strategies to remain competitive in the industry. Those that have operated between 10 and 40 years are affected majorly by social cultural factors which led them to form strategic alliances and collaborations to cope with the complex environment. Firms that have operated for more than 40 years are majorly affected by economic factors. This has made them cement their industry presence by focusing their strategies on increasing their market share, target particular clientele and market segments.

Competitive forces and government policies and decisions play a major role in the choice of strategic response to the changing environment. Competitive forces enable firms to look for solutions that will make them gain a competitive edge. The government plays a major role in which firms operates therefore it is important for firms to adhere to the policies that are laid out by the government.

5.3 Recommendations

This research was based on members of the Kenya Motor industry Association who are considered to be the formal motor vehicle sector. Another research should be done to compare the strategic responses adopted by dealers in both the formal and informal motor vehicle sector.

Research companies should be encouraged to conduct a formal research on all the industry players as this will lead to accurate and balanced information that could be useful in policy making. More players should be encouraged to join the association for them to enjoy the bargaining power of being members of the association.

Further, the industry players should fully utilize the association as a lobbying organ to the government. This would help in influencing the industry regulations which is one of the major challenges in the environment.

5.4 Limitations

Time constraints and the broad strategic variables are some of the limitations encountered while carrying out the study. It was therefore not possible to get in-depth information on all variables and some aspects may have been left out. Another limitation was the low response rate. This was due to the unavailability of few respondents even after several follow ups.

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APPENDICES

Appendix 1: Questionnaire

STRATEGIC RESPONSES ADOPTED BY MEMBERS OF KENYA MOTOR INDUSTRY ASSOCIATION TO THE CHANGING ENVIRONMENT

Instructions

The questionnaire has 3 parts. Kindly answer all the questions in each section. If a question is not applicable, kindly mark "N/A". If you simply do not have the knowledge, kindly mark "NK".

PART A: Institutional information.

1. Name of the organization (optional________________________________
2. How many years has the organisation operated in Kenya______________
3. Your position in the organization (tick)

   a) CEO ______________

   b) Middle level manager ______________

   c) Supervisor ______________

   d) Any other (Specify) ___________________

4. What is the nature of ownership? (Tick as appropriate)

   Local ____________ Foreign_____________ Other (Specify) ______________

5. What facilities do you offer?

   Assembly ☐ New vehicles ☐ Motor Vehicle parts ☐

   Service ☐ Others (specify) _____________________________

6. Mission of the organisation

____

____

7. Vision of the organisation

____

____

8. a) Do you have branches? Yes/No ____________________

   b) The branches are located at (Please list)

   ____

9. How many brand lines do you have ____________________

Part B: Environmental Changes and Challenges

The following are the most likely environmental changes that have occurred in Kenya. To what extent have they affected your organisation? Please rank using the key below (Tick).

1. None 2. To a less extent 3. To a moderate extent

4. To a large extent 5. To a very large extent

Environmental Changes	**1**	**2**	**3**	**4**	**5**
Political					
Tax regimes					
Import regulations					
Minimum regulation					
Others(please specify and rank)					
Economic					
Consumer buying patterns					
Economic growth rate					
Currency fluctuation					
Inflation					
Uncertainty					
Financial institution lending policies					
Others(please specify and rank)					
Social- Cultural					
New product perception					
Changes in the consumer buying behavior					

Customer status					
Others(please specify and rank)					
Technological					
Product Innovation					
Cost of getting new technology					
Staff incapability to cope with the technological changes					
Others(please specify and rank)					

Part C: Strategic Responses

The following are the most likely strategic response that the organisation has undertaken. Please rank using the key below (Tick)

1. None 2. To a less extent 3. To a moderate extent

4. To a large extent 5. To a very large extent

Strategic Response	1	2	3	4	5
Focus Strategy					
Focus on a particular clientele					
Focus on a particular market segment					
Focus on a particular geographical area					
Differentiation Strategy					
Having the best technology					
Being the best customer service					
Being the cost leader					
Branding the organisation					
Cost Strategy					
Cost minimization in research and development, marketing and advertisements					
Cost reduction in most departments					
Reducing workforce through normal retirement					
Laying off of staff					
Reduced production					

Strategic Reponses	1	2	3	4	5
Increase market share					
Diversification					
In related business					
In unrelated Business					
Strategic Alliances and Collaborations					
Suppliers					
Customers					
Mergers and Acquisitions					
Have you acquired a new business line in the last 5 years					
Outsourced activities(please specify and rank)					
Others: Please specify and rank					

Part D: Factors influencing Strategic Responses

The following are the factors that influenced the strategic response of the above strategies and to what extent? Please rank using the key below. (Tick)

1. None 2.To a less extent 3.To a moderate extent
4. To a large extent 5 To a very large extent

Factor Influencing the Strategic Response	**1**	**2**	**3**	**4**	**5**
Competitive forces					
Changes in tastes and preferences					
Government Policies and decisions					
Role of past strategies					
Mission and Vision of the organisation					
Corporate culture					
Management Attitude towards risk					
Timings					
Pressure from stakeholders					
Needs and desires of Key managers					

Others: Please specify and rank					

- Any other comments regarding to strategic response in your organisation.

____

____

____

Thank you for your cooperation

Appendix 2: List of Companies

1. Autoxpress Ltd
2. Amazon Motors
3. Associated Vehicle Assemblers
4. Automotive Solutions
5. CMC Motors
6. Car and General
7. D.T.Dobie And Co(Kenya) Ltd
8. General Motors East Africa
9. Kenya Grange Vehicle Industries Ltd
10. Marshalls (EA) Ltd/ Kia Motors / Tata Africa
11. Mashariki Motors Ltd
12. Oriel Ltd
13. Sameer Africa
14. Simba Colt Motors Ltd
15. Subaru Kenya Ltd
16. Toyota East Africa Ltd

Source: KMI website