STRATEGIES ADOPTED TO COPE WITH EXTERNAL ENVIRONMENTAL TURBULENCE BY BUILDING AND CONSTRUCTION FIRMS IN NAIROBI, KENYA

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DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature: ....Date: 12-11-2012..............................

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

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DEDICATION

I dedicate this work to my family for the sacrifice they made for me to complete this project. Their concern, support and encouragement inspired me to achieve this milestone. This is especially dedicated to my mother for the passion and enthusiasm she has had throughout as she endeavored to strive that we actualized our fullest potential. And to the young ones in the family, there is no limit to when you can achieve your academic and by extension your goals in life.

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ABSTRACT

The alignment between strategy and environment lies at the centre of strategic management. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. This study sought to determine the strategies adopted by building and construction firms in Kenya to cope with external environmental turbulences with reference to construction companies in Nairobi. The study also sought to determine the strategies adopted by building and construction firms in Nairobi, Kenya to cope with external environmental turbulences and to identify the challenges facing building and construction firms operating in turbulent environmental conditions in Nairobi, Kenya.

A descriptive cross-sectional design method was preferred for this study as it offered the researcher the methodology to investigate the strategies adopted by building and construction firms in Kenya to cope with external environmental turbulences. The target population was the building and construction firms in Nairobi as derived from the latest list of the Ministry of Works government approved contractors. The most current listing of March 2012 has a total of 6644 contractors with 4063 of them based in Nairobi County. Stratified proportionate random sampling technique was used to select a sample of 64 respondents by taking eight companies from each of the eight categories of construction companies. After collecting data responses from the questionnaire, the researcher analyzed the quantitative data using descriptive statistics and presented it through percentages, means, standard deviations and frequencies. The qualitative data was coded thematically and then analyzed statistically.

The study established that the strategies adopted to a great extent to cope with external environmental turbulences are financing strategy (for example, debt rescheduling, raising equity, business strategy (cost focus, differentiation or hybrid), growth strategy (consolidation, withdrawal, launching new products, entering new markets) and portfolio strategy (divestment, acquisition, alliance, new product development. This study therefore recommends that the institutions charged with the responsibility of licensing and monitoring new and existing firms to regulate the entry of new firms to avoid unhealthy competition and deliver quality work.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

A business external environment can be considered as those factors and conditions that are beyond the direct control and influence of a business. These factors depend on the complexity and dynamism of the environment. According to Olivier (2011), understanding the environment within which the business has to operate is very important for running a business unit successfully at any place. The external environment factors influence almost every aspect of business, be it its nature, its location, the prices of products, the distribution system, or the personnel policies (Manfred, 2006). Hence it is important to learn about the various components of the business environment, which consists of the economic aspect, the socio-cultural aspects, the political framework, the legal aspects and the technological aspects etc.

According to Chepkwony (2001), when businesses see their environment as turbulent, complex and competitive, they respond to align with the environment. Increased competition has created fundamental shift in economic environment whereas no organization can hope to stay afloat if it fails to come up with proper strategic responses. Market economies have historically been prone to fluctuations booms and slumps in aggregate activity over time. Analysts claim to have detected a pattern in these fluctuations, referring to changes in economic activity in terms of an economic cycle or as long waves of capitalist development (Allen and Gale, 2008).

All businesses are involved in a network of relations with other stakeholders competitors, for example and this influences business strategy and performance. The performance consequences of strategic adaptation are similarly variable. Firms adapting quicker and better will be more likely to survive the recession and position themselves well for the recovery. But, however firms choose to adapt during recession, their actions will generate longer-term consequences. Cutting investment expenditure in order to conserve resources, for instance, might ensure short-term survival but may also adversely affect firms' ability to compete when the upswing comes (Scott, 2009). Alternatively, maintaining resources at pre-recession levels might lead to slack capacity, excessive overheads and declining profitability.

1.1.1 The Concept of Strategy

Strategy refers to the machinery of the resources and activities of an organization to the environment in which it operates (Teece, 2007). In developing strategy, firms undertake three sets of activities: strategic analysis, strategic choice and strategic implementation. Typically, businesses are reported to assess their strategic position by: (a) scanning the environment for potential market opportunities and threats; (b) evaluating their strategic capability; and (c) assessing the enablers and constraints of strategy. Firms differ in how they undertake these activities. In large enterprises, strategic analysis, choice and implementation are often distinct activities, carried out by different people, whereas in small firms, a single person might perform all three, often at the same time (O'Gorman, 2006).

There are two mainstream schools of strategy: the 'positioning school' and the 'resource-based view' (RBV). The positioning school, popularised by Porter (1980), views the firm as concerned with achieving 'strategic fit' with its environment; that is, with evaluating the competitive forces operating within the environment (Porters' Five forces) to assess where and how best to compete. In the RBV school, initiated by Pearce and Michael (2006), a firm's competitive advantage lies mainly in the bundle of resources at its disposal and how it can stretch these to achieve competitive advantage. Recent analysts have extended the RBV using the concept of 'dynamic capabilities' to refer to the firm's' ability to develop and extend resources and competences to adapt to a changing environment (Teece, 2007). In a radically changing environment, such as the current recession and increasing competition, the concept of dynamic capabilities may be helpful in developing a framework for understanding why some firms succeed, some eke out survival, and some fail. There are, therefore, dual concepts of strategic fit and strategic stretch, or more colloquially looking at the firm from the outside in, or from the inside out. Both perspectives are important in explaining business behaviour, including adaptation under recession conditions.

Strategic responses are the reactions of a firm or an organization to environmental changes or turbulence; that is, machinery of the resources and activities of an organization to the environment in which it operates (Dwivedi, 2001). According to Pearce and Robinson (2005), it is through strategic responses that a firm is able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. Thus, the survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy (Grant, 2002).

1.1.2 Business External Environment

The environment in which organizations operate is constantly changing with different factors influencing the organizations. A firm's competitive environment comprises of the following set of factors; threat of new entrants, suppliers, buyers, product substitutes and the intensity of rivalry among competitors that directly influences a firm and its competitive actions and responses. In total, the interactions among these five factors determine an industry's profit potential (Hammond, 2003).

Dwivedi (2001) stated that economic environment is a form of business environment and refers to economic factors which have their effect on the working of the business. He stated that it includes system, policies and nature of an economy, trade cycles, economic resources, level of income, distribution of income and wealth among other thing. According to Arthur and Sheffrin (2003), economic environment is very dynamic and complex in nature. It does not remain the same. It keeps on changing from time to time with the changes in an economy like change in Government policies, political situations among other economic factors.

Difficult economic conditions are defined primarily in terms of macroeconomic recession (falling national GDP) and, secondly, in terms of environmental jolts, shocks or hostility, including secular decline in the fortunes of particular industries (Teece, 2007). This permits a distinction to be made between businesses experiencing performance decline during periods of recession, or other environmental shock, and those suffering decline due to failure to adapt successfully to competitive pressures in buoyant conditions.

Markets impart pressure on firms to adapt to changing circumstances, or to risk decline and exit. But businesses vary in their interpretation of market signals and expectations of stakeholders' responses, including actual and prospective partners, competitors, customers, suppliers, investors and Government, among others. Identification of particular threats and opportunities, however, tells us nothing about how firms choose to adapt or *why* they do so in the ways they do, or what the consequences of adaptation are. Businesses always have some discretion regarding the strategies they adopt, although the degree of choice is often severely constrained by resources or circumstances (Manfred, 2006). Larger enterprises, for example, might possess greater discretion concerning strategy choice owing to their superior resource base and higher resilience to environmental shocks. Firms take strategic decisions about which goods and services to provide (and, therefore, which markets to enter or exit), and how to produce them, set prices, and attract particular kinds of customers. This is true of businesses during recessions and in buoyant times.

1.1.3 Adaptation to External Environmental Turbulence

Adapting to environmental shocks is a capability all businesses have to develop in order to survive. Environmental shocks, or jolts, reshape the opportunities and threats the firm faces and are likely to render existing business strategies ineffective. Different types of environmental shock can occur with which businesses have to cope; such shocks change the level of environmental munificence, the level of resources available in a particular environment. Recession, an environment of falling GDP, is one type of shock. According to Grewal and Tansuhaj (2001), strategic flexibility, the ability to respond quickly to changing competitive conditions has a positive influence on business performance after a crisis. Others suggest that discontinuous change within an industry stimulates the formation of inter-organizational relationships, promotes experimentation with new organizational forms and precipitates affiliations spanning industry boundaries. Inter-organizational networks absorb uncertainty arising from revolutionary change.

Olivier (2011) discusses the dynamic capabilities required to survive and succeed in a transition economy – namely, the interactions between exploitation learning (learning to do things better) and deployment capabilities within the organisation, and the interactions between exploration learning (creation, experimentation) and the search and selection capabilities required to manage innovation routines. In hyper-competitive or crisis situations, however, short-term considerations might be dominant. Business restructuring in the form of replacement of managerial elites, functional reorganizations, and other changes to internal arrangements are often a precursor to, or a consequence of, strategic adaptation to recession (Geroski *et al.*, 2007).

External environment dynamics present businesses with a dilemma. On one hand, firms experience pressures to cut costs in order to maintain survival in the short-run at the risk of reducing capacity to such a degree that the firm is unable to adapt adequately when recovery comes. On the other, businesses might also face pressures to maintain greater capacity, and thereby incur higher costs in the short-run, in order to retain the capability to adapt when the upswing comes and realize opportunities for long-term value creation. Deans *et al* (2009) distinguishes the 'statically efficient' firm, one making the most efficient use of resources in given circumstances, with the 'dynamically efficient' firm, one capable of surviving changing circumstances. Clearly, businesses must be able to be both statically and dynamically efficient if they are to endure. Firms must be able to cut their cloth to survive present conditions while at the same time continue to invest in business development if they are to sustain satisfactory performance beyond the recession.

There are a number of approaches to explaining how firms adapt under turbulent environmental conditions. One view argues that incumbent firms suffer from organizational inertia, which prevents them from adapting to new, hostile environmental conditions. Alternatively, the 'pit-stop' theory of business behavior suggests that in recession firms are more willing to innovate because the opportunity costs of not undertaking such action are lower than during more buoyant times (Geroski *et al.*, 2007). Failure might induce unsuccessful firms to search for alternative ways of doing things. Businesses are more likely to have slack capacity during periods of falling sales, as resource stocks exceed current use. Under such circumstances, businesses might bring forward investment and innovation plans to take up the resource surplus and because incentives to continue business as usual are reduced. On the other hand, success also creates organizational slack, generating additional resources for innovation. For simplicity, three types of business strategy are distinguished: retrenchment, investment, and 'ambidextrous' strategies.

To survive in a dynamic and highly competitive business environment, different organizations have had to engage various strategies to survive (Manfred, 2006). One such strategy is the corporate turnaround strategy. The starting point is identification of the root cause or causes of the crisis. Turnaround strategies are used when a business worth resuming goes into corporate crisis (Pearce and Robinson, 2005). Firms operating in markets demanding frequent product innovation - for example, many consumer electronics markets -

are likely to face pressures to innovate even during recessions. Innovation often requires continued investment in research and development, training and intellectual property rights. Firms with limited resources who are unable to secure additional finance might find it difficult to undertake strategies involving costly investment. Conversely, in price-sensitive markets, firms must consider whether price reductions, or price maintenance is more likely to generate higher revenues, particularly where competitors are doing the same. Recession conditions might, of course, stimulate sales for particular kinds of goods, for example, where customers switch to lower-priced providers in order to reduce expenditure. Insolvency services firms, for instance, might increase sales as the number of business exits rises and demand for such services expands.

1.1.4 Building and Construction Firms in Kenya

The construction industry is very important for the Kenyan economy. It accounts for 7% of the country's GDP and employs about 1 million people with an estimated annual wage bill of Sh3.2 billion. According to recent findings by Kenya National Bureau of Statistics (KNBS), Kenya's economy grew by 4.9% in the first quarter of 2011 thanks to the improved productivity in the construction industry. KNBS reported that the industry contributed Sh12.6 billion to the Kenya's GDP in Q1 2011 buoyed by the large road infrastructure projects currently under way across the county. The construction boom was also reflected in cement consumption which rose to 779.3 million tonnes up from 667.1 million tonnes consumed in the same period last year.

As a result of the rapidly expanding population, devolution into the 47 counties and Kenya's quest for Vision 2030, the industry is expected to grow further as investors rush to meet rising demand for housing. Extensive opportunities for investment are huge especially in the construction of middle and low income housing, manufacture and supply of construction materials and components as well as in the area of upgrading informal settlements. Opportunities also exist in the transport sector particularly in the renovation and rehabilitation of the transport infrastructure. However, the local firms have faced stiff competition from international companies who offer cheap and high quality services.

1.2 Statement of The problem

The alignment between strategy and environment lies at the centre of strategic management. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Correct alignment helps a firm maximize the economic benefits from resources, improve the effectiveness of operations, and boost the fulfillment of its strategic goals. These inter-dependencies are crucial and consequently strategic decisions should always involve some assessment of their impact on other companies, and their likely reaction.

Though the construction industry in Kenya has been said to contribute a substantial portion of the gross domestic product (GDP), the local building and construction firms have been faced with increasing challenges making their profits to decline and even register losses (Njuguna, 2011). The construction industry has been facing a lot of challenges in quality assurance from collapsing of buildings and constructions on road reserves and public utility spaces in addition to delayed or non completion of projects. This is compounded by some local authorities' lack of capacity to facilitate the implementation of quality control hence quality assurance is left to public health technicians (Ministry of Public Works, 2010).

Many researchers have indicated the importance of strategic alignment and suggested that the strategy-environment fit has strong performance implications. Locally, studies on strategic responses and changing environment have been conducted. Mpungu (2005) carried out a research on strategic responses to competitive environmental conditions whose focus was on AAR Health Services Ltd. Kashero (2008) studied the strategic responses to competitive environment at Lloyd Masika while Maina (2008) did a research on the strategic responses to changing environmental conditions which centered its focus on Central Bank of Kenya.

To the best of the researcher's knowledge, no study has focused on the strategies adopted by local building and construction firms in Kenya to cope with external environmental turbulences. This study therefore sought to determine the strategies adopted by building and construction firms in Kenya to cope with external environmental turbulences with reference to construction companies in Nairobi.

1.3 Objectives of the Study

The study sought to:

i. Determine the strategies adopted by building and construction firms in Nairobi, Kenya to cope with external environmental turbulences

ii. Identify the challenges facing building and construction firms operating in turbulent environmental conditions in Nairobi, Kenya

1.4 Value of the Study

The findings of this research will provide vital information to facilitate the management of companies in the construction industry in designing appropriate methods and strategies geared towards profitability and business sustainability. Thus, the findings are expected to help them identify gaps in their strategic responses and enable them to better respond to environmental changes especially stiff competition in the sector from international companies. The findings of the study will be beneficial to the managers of other companies since they will be also be enlightened on how the business responds to turbulence in their operating environment. The study will also contribute to the body of knowledge for researchers and scholars who will undertake further studies in a related field. It will provide them with a reference point and make recommendation for areas for further studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. The specific areas covered here are strategy, external environment turbulence, factors influencing the strategic responses and strategic responses to external environment turbulences.

2.2 The Concept of Strategy

According to Grant (2003) there is no agreed all embracing definition of strategy. Indeed, strategy is an elusive and somewhat abstract concept. He argues that this is expected when dealing with an area that is constantly developing. Strategy is the direction and scope of an organization over a long term. Strategies are systematic choices about how to deploy resources to achieve goals. A strategy is a long term plan of action designed to achieve a particular goal, most often winning (Thompson, 2007). Strategy is differentiated from tactics or immediate actions with resources at hand by its nature of being extensively premeditated, and often practically rehearsed.

Porter (1997) also posits that strategy is about competition and the means by which an organization tries to gain a competitive advantage. He has described a category scheme consisting of three general types of strategies that are commonly used by businesses. The three generic strategies are as follows: strategic scope and strategic strength. Strategic scope is a demand-side dimension and looks at the size and composition of the market to be targeted. Strategic decisions concern with the way the company chooses to match its resources with the environmental requirements through a co evolutionary process in order to achieve its long term objectives. To resolve this adaptation problem demands making decisions and implementing courses of action of multidimensional impact. These dimensions include time (short and long term), space (local, national, regional, global) and matter (products and/or services offered).

Strategic management is concerned with how firms generate and sustain competitive advantage in order to generate superior profit. In developing strategy, firms undertake three sets of activities: strategic analysis, strategic choice and strategic implementation. Typically, businesses are reported to assess their strategic position by: (a) scanning the environment for potential market opportunities and threats: (b) evaluating their strategic capability; and (c) assessing the enablers and constraints of strategy (O'Gorman, 2006).

2.3 External Environment Turbulences

A business external environment can be considered as those factors and conditions that are beyond the direct control and influence of a business. These factors depend on the complexity and dynamism of the environment. Strategic responses are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. It's thus a reaction to what is happening in the organization's environment. According to Chepurenko (2000), when businesses see their economic environment as turbulent, complex and competitive, they respond to align with the environment.

During the last two decades, several parallel and mutually influencing processes have contributed to increase the "turbulence" in the competitive environments of an increasing number of industries. This phenomenon has been widely acknowledged in the Strategic Management literature (Eisenhardt. 2001). Environmental turbulence is attributed to the increasing rate of change and to the drastic nature of many of these changes, specifically those related to technology, that make increasingly difficult to identify causes or predict results of competitive initiatives with reasonable certainty.

Turbulent environments are characterized by their high level of dynamism (showing nonlinear positive feedback), complexity and uncertainty (Teece, 2007). Reasons behind this increasing turbulence are associated to many factors. First, technological convergence and the consequential fall in the barriers to entry of industries related with communications and information. Second, the increasing accessibility and availability of information and the need to manage that information in a more effective way. Third, the increasingly global profile of competitors and finally the existence of new global public sector trends, characterized by the downsizing of government in many countries, after its massive retreat in its roles of shareholder in different sectors of the economy and by the significant increase in social and environmental activism, resulting in major new legislation aimed at improving life quality of citizens, but often at a significant cost to industry (Olivier, 2011).

Today's construction firms, no matter how large or small, are increasingly confronted with external environmental turbulence and complexity. As the external environment in which these construction firms exist is changing rapidly and continually, how to properly adopt strategic choices in response to environmental uncertainty has become a great challenge. Dwivedi (2001) embraced the notion that environmental uncertainty is both a threat and an opportunity to the development of an organization's internal structures and processes. It has been widely recognized that the inability to predict external changes can hinder success and even cause failure. Past studies have identified some key sources of environmental uncertainty, such as technology and market changes, governmental laws and regulations, social transformation, client preferences, supplier support, and the behavior of competitors (Pearce and Michael, 2006).

Turbulent times bring with them opportunities as well as threats. During expansions, businesses often continue, unreflectively, with existing routines; only when sales dry up do many firms consider new ways of doing business. Proposals abound to invest judiciously in marketing in order to understand consumers' changing behaviour during recession, win new customers and to maintain brand equity; in new product development; in IT in order to enhance business processes; on adapting supply chains to deliver better value to a range of customers; on human resources and employee benefits; and on communications with investors and employees to retain commitment (Argenti, 2009).

Flexibility and rapid response to changing conditions are considered key objectives during periods of uncertainty (Hartman, 2009). The concept of environmental uncertainty is central to understanding how different levels of uncertainty affect organizations. Manfred (2006) attempted to identify the dimensions of the environment that would determine its perceived uncertainty. He infers two dimensions from earlier theorists: the simple-complex dimension and the static-dynamic dimension. The simple-complex dimension is the number of environmental factors taken into consideration in decision making; while the static-dynamic dimension is the degree to which these factors remain the same or change continually over time.

2.4 Factors Influencing the Strategic Responses

Business strategy and performance vary with resources and capabilities, owner/manager perceptions of the threats faced and opportunities available, and the wider organizational, market, institutional and cultural contexts (Whitley, 2007). Markets impart pressure on firms to adapt to changing circumstances, or to risk decline and exit. But businesses vary in their interpretation of market signals and expectations of stakeholders' responses, including actual and prospective partners, competitors, customers, suppliers, investors and Government, among others. Identification of particular threats and opportunities, however, tells us nothing about how firms choose to adapt or why they do so in the ways they do, or what the consequences of adaptation are. Businesses always have some discretion regarding the strategies they adopt, although the degree of choice is often severely constrained by resources or circumstances (Allen and Gale, 2008). Larger enterprises, for example, might possess greater discretion concerning strategy choice owing to their superior resource base and higher resilience to environmental shocks. Firms take strategic decisions about which goods and services to provide (and, therefore, which markets to enter or exit), and how to produce them, set prices, and attract particular kinds of customers. This is true of businesses during recessions and in buoyant times.

Kazmi (2002) observed that a technological breakthrough can have a sudden and dramatic effect on firm's environment. It may spawn new markets and products or significantly shorten the anticipated life of a manufacturing facility. Hence for a firm to stay successful, it must strive to understand both the existing technological advances that can affect its products and services also the ability to forecast future technological advances helps alert strategic mangers to both impending challenges and promising opportunities.

The social factors that affect a firm involves the beliefs, values attitudes, opinions and lifestyles of persons in the firms external environment, as developed from cultural, ecological, demographic, religious, educational, and ethnic conditioning (Pearce and Robinson, 2007). As social attitudes changes so too does the demand of various types of products. Like other forces in the external environment, social factors are dynamic with constant change resulting from efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors. For managers, informed judgment of the impact of changes in social; cultural factors are paramount.

A firm's size can affect the nature of external environmental impacts and the mechanisms through which they are transmitted, as well as the firm's ability to respond. The more limited resource base of SMEs compared with larger firms, particularly in terms of finance and management, can affect their ability to scan, analyse and respond to major environmental change. Business size shapes perceptions of external pressures, threats and opportunities, the business strategies adopted, and the levels of performance achieved (Dwivedi, 2001). Interestingly, some studies suggest that small businesses are *less* likely to perceive negative impacts on performance during recession periods (Latham, 2009).

Large companies tend to have greater scope for strategic choice because of their superior resources to scan the environment for potential market opportunities, to develop a wider range of capabilities and also facilitate greater resilience to withstand difficult times. This particularly applies in the case of multinational firms, with operations spread across countries. Small businesses are perhaps more vulnerable to market shifts as they lack resources and usually operate with narrower product portfolios, rendering them at greater risk from industry-related downturns; yet some studies find that small businesses report more limited impacts than larger enterprises. Small businesses are, therefore, more likely to react to environmental shifts than be in a position to direct them. But, conversely, small firms often possess the flexibility to adjust resource inputs, processes, prices and products quickly in response to environmental shocks, a crucial capability to facilitate business survival (Reid, 2007). Small firms might also be more willing to engage in risky investment/innovation behaviour to improve performance because they realise that the current successful situation cannot continue indefinitely.

2.5 Strategic Responses to External Environment Turbulences

According to Rhodes and Slater (2009), businesses adopt a variety of strategic approaches to dealing with turbulent environmental conditions. Some firms focus on retrenchment activities, entailing cost/asset-reduction, in order to conserve resources; other businesses use recession to exploit opportunities to invest, innovate and diversify; yet others, perhaps most, adopt a heterogeneous approach combining judicious cost/asset-reduction activity with equally carefully chosen investment projects to expand sales, profits and/or market share.

In order to achieve a competitive advantage, strategy needs to focus on unique activities. Strategy researchers have emphasized stability in a firm's pattern of resource commitments. Through resource commitments, firms erect entry barriers, mobility barriers, and isolating mechanisms that protect their competitive advantages. In order to develop strong strategic responses capabilities a firm needs to have the three types of flexibilities market flexibility production flexibility and competitive flexibility (Hammond, 2003).

Firms' resources and capabilities may be exploited to increase operational efficiency, or dynamic capabilities may be developed to explore new opportunities for revenue generation. To leverage their capabilities, firms implement a variety of strategies, for example, portfolio strategy (divestment, acquisition, alliance, new product development), growth strategy (for example, consolidation, withdrawal, launching new products, entering new markets), business strategy (for example, cost focus, differentiation or hybrid) and financing strategy (for example, debt rescheduling, raising equity). Strategies are implemented through a range of revenue generation and efficiency-enhancing actions. Performance outcomes include sales, profit and market share achieved (Argenti, 2009).

O'Gorman (2006) found that as a result of the ongoing economic reforms, firms in the motor industry adjusted their variables substantially so as to survive in a competitive environment. The firms in this industry introduced new technologies of product development, differentiated their products, segmented and targeted their customers more and improved customer services. They also made significant changes to marketing mix variables of promotion, price and distribution in response to competition.

Retrenchment strategies involve cutting operating costs and divestment of non-core assets. In times of recession, business horizons often shorten with owners/managers focusing on immediate survival rather than on long-term aims. Believing it is easier to reduce costs than generate additional revenue, many businesses choose to retrench. Commentators report divestment of businesses, establishment closure, reductions in working hours and employment, expenditure cuts on a wide range of activities including R&D, marketing and employee training (Whitley, 2007).

Diversification makes sense when good opportunities can be found outside the present business. Kotler (2000) states that a good opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful, Fred (1997) observed. Three types of diversification are possible. The construction company could seek new products that have technological and/or marketing synergies with existing product lines even though the new products themselves may appeal to a different group of customers (this is referred to as concentric diversification) (Zou , Fang and Zhao, 2003).

Differentiation strategy is one of porter's key business strategies. When using this strategy, a construction company focuses its efforts on providing a unique product or service. Since the product is unique, this strategy provides high customer loyalty. Pearce and Robinson (2007) contend that strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute. Product differentiation fulfils a customer need and involves tailoring the product or service to the customer. This allows the organization to capture the market share.

Muhammad's (2010) study of 600 mainly large construction companies found that most firms adapted by refocusing the business, understood largely in terms of controlling costs, particularly by laying off labour and closing establishments. Expanding or reducing product lines was much less common. The authors argued that, during recession, firms have additional incentives to cut costs, in contrast to cyclical upturns where there is less incentive to do so because revenues are rising. Investment in plant and equipment declined but investment in intangibles like training, R&D and advertising was affected less by recession. The study provided limited evidence for the 'pit-stop' theory of business behaviour during recession: only a small number of businesses brought forward investment plans because they had the resources and time to do so.

Deans *et al* (2009) investigated firms' 'endgame strategies' in seven US industries in decline during the late-1970s. The study focused on how businesses cope in an environment in which future demand is expected to be lower than current demand and, therefore, the resale value of business assets is likely to decrease over time. They identified a range of strategies varying in terms of the level of market share sought, and the degree of reinvestment needed to maintain a particular strategic position. Strategies include: increased investment with the aim of attaining market leadership; holding the investment level to continue with tactics used previously; shrinking selectively to reposition the business, by retrieving the value of some prior investments while reinvesting elsewhere if necessary; milking the investment to harvest the value of earlier investments without regard for long-run positioning; and immediate divestment to recoup asset value.

The 'business turnaround' literature investigates how businesses take action to arrest performance decline and then improve (Chepurenko, 2000). The bulk of this literature does *not* relate strategy and performance to recession, although turnaround attempts often occur during periods of recession. Turnaround situations vary with regard to the nature and extent of the performance decline, and the benchmarks against which decline is measured – for example, a firm-specific historical standard, or an industry or national benchmark. Studies typically identify 'retrenchment' and/or 'investment' responses to secure survival and improve performance, although such attempts might fail (Hartman, 2009). Reviews of the turnaround literature suggest that retrenchment is the key to successful turnaround, either as a stand-alone approach or as a precursor to a recovery strategy. Arguably, businesses are likely to adapt differently in recession and buoyant conditions, as they perceive market opportunities and threats differently. Buoyant conditions may well support a broader range of strategies than recession conditions, where market selection pressures are less forgiving.

Dealing with the threats effectively may involve more than strategies aimed at the exploitation of cost efficiencies. Cost efficiency drives must be accompanied with significant innovation and exploration activity, in order to take advantage of opportunities which exist even in times of recession (Whitley, 2007). The combination of cost efficiency and innovation strategies thus constitutes an ambidextrous approach.

Hill and Jones (2001) argue that focus strategy concentrates on serving particular market niche, which can be defined geographically, type of customer or by segment of the product line. According to Johnson and Scholes (2002), business unit strategy is about how to compete successfully in particular markets. They added that operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Construction companies adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter is a discussion of the methodology that was used by the researcher to find answers to the research question. In this chapter the research methodology was presented in the following order. research design. population. data collection and finally the data analysis.

3.2 Research Design

A descriptive cross-sectional design method was preferred for this study as it offered the researcher the methodology to investigate the strategies adopted by building and construction firms in Kenya to cope with external environmental turbulences. The method was chosen since it is more precise and accurate since it involves description of events in a carefully planned way (Babbie. 2004).

3.3 Population

The target population was the building and construction firms in Nairobi as derived from the latest list of the Ministry of Works government approved contractors. The most current listing of March 2012 has a total of 6644 contractors with 4063 of them based in Nairobi County.

3.4 Sampling Techniques

Stratified proportionate random sampling technique was used to select a sample of respondents by taking eight companies from each of the eight categories of construction companies (see Appendix III). According to Chandran (2004). stratified proportionate random sampling technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification aims to reduce standard error by providing some control over variance.

3.5 Data Collection

For this study, the researcher intended to use qualitative and quantitative data from both primary and secondary sources. The researcher used a semi structured questionnaire to collect primary data. The primary data composed of the responses received from the top managers of the construction companies while the secondary data was from any relevant literature review. The questionnaire was structured to include both closed and open-ended questions to allow variety. The researcher administered the questionnaire individually to all respondents using a drop and pick later method.

3.6 Data Analysis

The returned questionnaires were checked for consistency, cleaned, and the useful ones coded and analyzed. After collecting data responses from the questionnaire, the researcher analyzed the quantitative data using descriptive statistics and presented it through percentages, means, standard deviations and frequencies. The qualitative data was coded thematically and then analyzed statistically. Conceptual content analysis was used for data that is qualitative nature or aspect of the data collected from the open ended questions. The information was displayed by use of tables, graphs and in prose-form. Further, the researcher cross tabulated various aspects of the study to establish their relationship.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis of data and discussion of the research findings. The chapter outlines the findings based on the research objectives. The purpose of this study was to establish the strategies adopted by building and construction firms and the challenges that they face as they operate in turbulent environmental conditions in Nairobi, Kenya. SPSS was used to generate the descriptive statistics and to establish the relation between the dependent and the independent variables of the study. The research findings were presented in form of tables, graphs and charts. Tabulation helped to summarize the data whereas graphs and charts were used to present the study results.

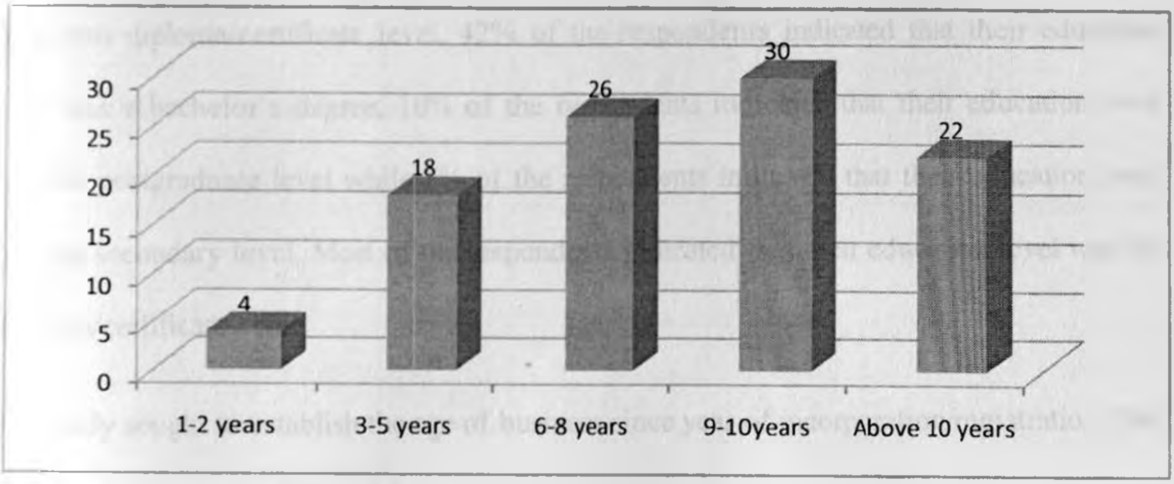
The study targeted a sample size of 64 firms. However, a total of 50 questionnaires were filled giving a response rate of 78.13%.

4.2 General Information

The study sought to establish the demographic information of the respondents and the characteristics of the firms including the duration that the employees had worked in the firm and the respondents' education level, age of business since year of incorporation/registration, ownership of the firm, number of employees.

The study further sought to find out the duration that the employees had worked in the firm. The findings are shown in Figure 4.1.

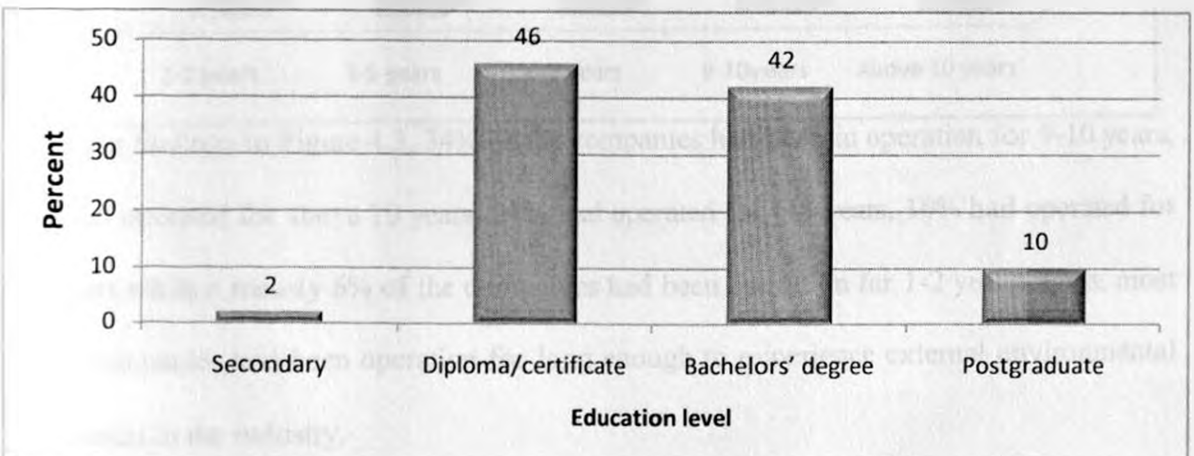
Figure 4. 1: Duration that the employees had worked in the firm



From the findings, 30% of the respondents had 9-10years of experience, 26% had worked for 6-8 years, 22% had experience for above 10 years, 18% had 3-5 years of experience with their current company while 4% of the respondents had worked in their company for 1-2 years.

The respondents were requested to indicate their education level as well. The results that were obtained were as shown in Figure 4.2.

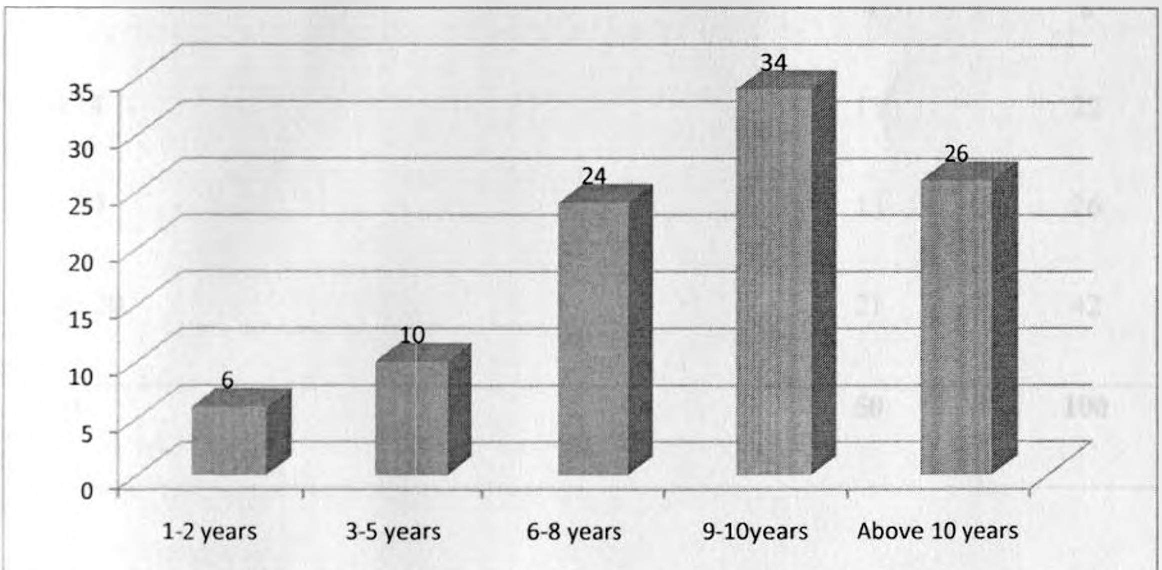
Figure 4. 2: Education level



According to the findings in Figure 4.2. 46% of the respondents indicated that their education level was diploma/certificate level. 42% of the respondents indicated that their education level was a bachelor's degree. 10% of the respondents indicated that their education level was the postgraduate level while 2% of the respondents indicated that their education level was the secondary level. Most of the respondents indicated that their education level was the diploma/certificate level.

The study sought to establish the age of business since year of incorporation/registration. The findings are shown in Figure 4.3.

Figure 4. 3: Age of Business since year of Incorporation/Registration



From the findings in Figure 4.3. 34% of the companies had been in operation for 9-10 years. 26% had operated for above 10 years, 24% had operated for 6-8 years, 10% had operated for 3-5 years while a measly 6% of the companies had been operation for 1-2 years. Thus, most of the companies had been operation for long enough to experience external environmental turbulences in the industry.

The study also sought to find out the nature of ownership of the firms. It was found that 74% of the companies were limited liability companies, 14% were sole proprietorship while 12% of the companies were partnership.

The respondents were requested to indicate the number of employees in their companies. The results are shown in Table 4.1.

Table 4. 1: Number of employees

Number of employees	**Frequency**	**Percentage**
1 to 5	1	2
6 to 10	4	8
11 to 14	11	22
16 to 20	13	26
Above 20	21	42
Total	**50**	**100**

The study established that majority (42%) were big companies as they had above 20 employees, 26% had 16 to 20 employees, 22% had 11 to 14 employees, 8% had 6 to 10 employees while 2% had only 1 to 5 employees.

4.4 Strategies adopted to cope with external environmental turbulences

The researcher requested the respondents to indicate the extent that their firms adopt the following strategies in coping with external environmental turbulences. The results were as shown in Table 4.2.

Table 4. 2: Strategies of coping with external environmental turbulences

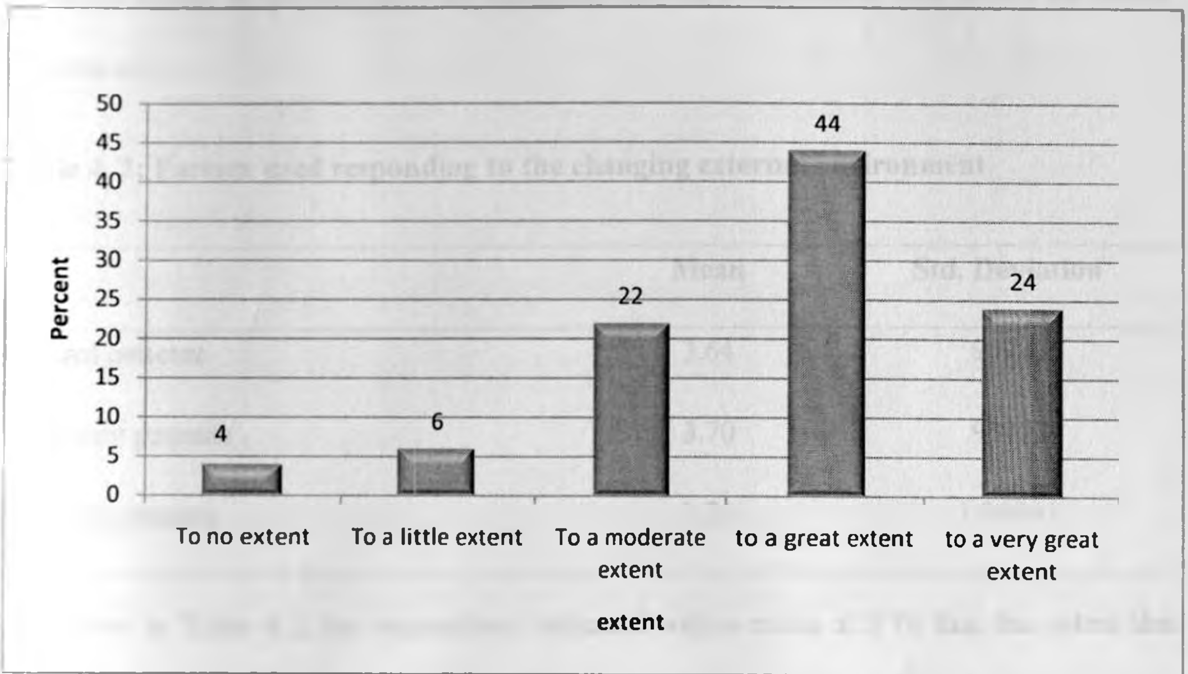
	Mean	Std. Deviation
Portfolio strategy (divestment, acquisition, alliance, new product development	3.54	.97332
Growth strategy (consolidation, withdrawal, launching new products, entering new markets)	3.62	1.02798
Business strategy (cost focus, differentiation or hybrid)	3.88	.98229
Financing strategy (for example, debt rescheduling, raising equity)	3.92	1.12195
Increased investment with the aim of attaining market leadership	3.34	1.25536
maintain current resources and competences to execute business	2.82	1.20695
Shrinking selectively to reposition the business, by retrieving the value of some prior investments while reinvesting elsewhere if necessary	2.08	1.08496
reduce activity n product line without necessarily eliminating it	1.92	.98644
sell investment to recoup asset value	1.90	1.07381

According to the findings in Table 4.2, the respondents indicated with a mean of 3.92 that their firms have adopted the financing strategy (for example, debt rescheduling, raising equity) to a very great extent. The respondents also indicated with a mean of 3.88 that their firms have adopted business strategy (cost focus, differentiation or hybrid) to a very great extent. In addition, the respondents indicated with a mean of 3.62 that their firms have adopted growth strategy (consolidation, withdrawal, launching new products, entering new markets) to a great extent. The respondents further indicated with a mean of 2.08 that their firms have adopted the strategy of shrinking selectively to reposition the business, by retrieving the value of some prior investments while reinvesting elsewhere if necessary to a moderate extent as well. In addition, the respondents indicated with a mean of 1.92 that their firms have adopted the strategy of reducing activity and product line without necessarily eliminating it to a low extent. Lastly, the respondents indicated with a mean of 1.9 that their firms have adopted the strategy of selling investment to recoup asset value to a low extent as well.

4.4.1 Restructuring Strategic Responses

The respondents were requested to indicate the extent to which their companies use restructuring strategic responses in the changing external environment. The results obtained were as shown in Figure 4.4.

Figure 4. 4: Extent of using restructuring strategic responses



From the findings in Figure 4.4, 44% of the respondents indicated that their companies uses restructuring strategic responses in the changing external environment to a great extent, 24% of the respondents indicated that that their company uses restructuring strategic responses in the changing external environment to a very great extent, 22% of the respondents indicated that their company uses restructuring strategic responses in the changing external environment to a moderate extent, 6% of the respondents indicated that that their company uses restructuring strategic responses in the changing external environment to a little extent while 4% of the respondents indicated that their company uses restructuring strategic responses in the changing external environment to no extent at all. It is clear from what most of the respondents indicated that that their company uses restructuring strategic responses in the changing external environment to a great extent.

The respondents were also requested to state the extent that restructuring strategies involve the stated factors in responding to the changing external environment. The results are shown in Table 4.3.

Table 4. 3: Factors used responding to the changing external environment

	Mean	Std. Deviation
Control patterns	3.64	.94242
Authority patterns	3.70	.93131
Business process	3.76	1.06061

As shown in Table 4.3. the respondents indicated with a mean of 3.76 that the extent that business process as a restructuring strategy is involved in responding to the changing external environment is great. The respondents also indicated with a mean of 3.70 that authority patterns as a restructuring strategy is involved in responding to the changing external environment to a great extent. Lastly, the respondents indicated with a mean of 3.64 that control patterns as a restructuring strategy is involved in responding to the changing external environment to a moderate extent.

The researcher also requested the respondents to state the extent that restructuring strategies involve the stated factors in responding to the changing external environment. The respondents gave the results as shown in Table 4.4.

Table 4. 4 Restructuring strategies and the changing external environment

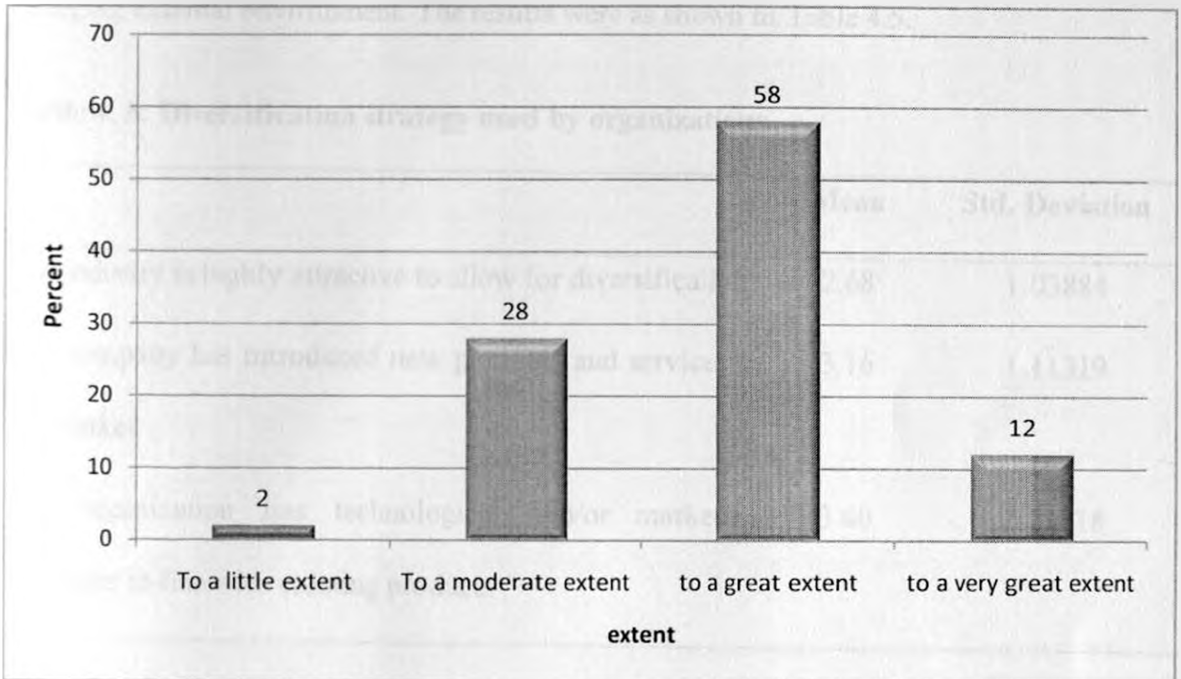
	Mean	Std. Deviation
Concentric diversification (changing marketing plan to achieve strategic fit)	2.80	1.03016
Horizontal diversification (entering a new business/ adds new products or services that are unrelated to current products for the current customers)	3.20	1.12486
Conglomerate diversification/lateral diversification (marketing new products or services to new groups of customers).	2.86	1.19540

According to the findings in Table 4.4, the respondents indicated with a mean of 3.20 that horizontal diversification (entering a new business/ adds new products or services that are unrelated to current products for the current customers) as restructuring strategies is involved in responding to the changing external environment to a great extent. In addition, the respondents indicated with a mean of 2.86 that conglomerate diversification/lateral diversification (marketing new products or services to new groups of customers) as restructuring strategies is involved in responding to the changing external environment to a moderate extent. Lastly, the respondents indicated with a mean of 2.80 that concentric diversification (changing marketing plan to achieve strategic fit) as restructuring strategies is involved in responding to the changing external environment to a moderate extent.

4.4.2 Diversification strategies

The researcher requested the respondents to indicate the extent that the company uses diversification strategies in responding to the turbulent external environment. The results were as shown in Figure 4.5.

Figure 4. 5: Extent of using diversification strategies



According to the findings in Figure 4.5, 58% of the respondents indicated that the extent that the company uses diversification strategies in responding to the turbulent external environment is great, 28% of the respondents indicated that the extent that the company uses diversification strategies in responding to the turbulent external environment is moderate, 12% of the respondents indicated that the extent that the company uses diversification strategies in responding to the turbulent external environment is very great while 2% of the respondents indicated that the extent that the company uses diversification strategies in responding to the turbulent external environment is a little. It can be inferred that most of the respondents indicated that the extent that the company uses diversification strategies in responding to the turbulent external environment is great.

The respondents were also requested to indicate the extent of their agreement with the stated statements regarding the diversification strategy as used by organizations in responding to the changing external environment. The results were as shown in Table 4.5.

Table 4. 5: Diversification strategy used by organizations

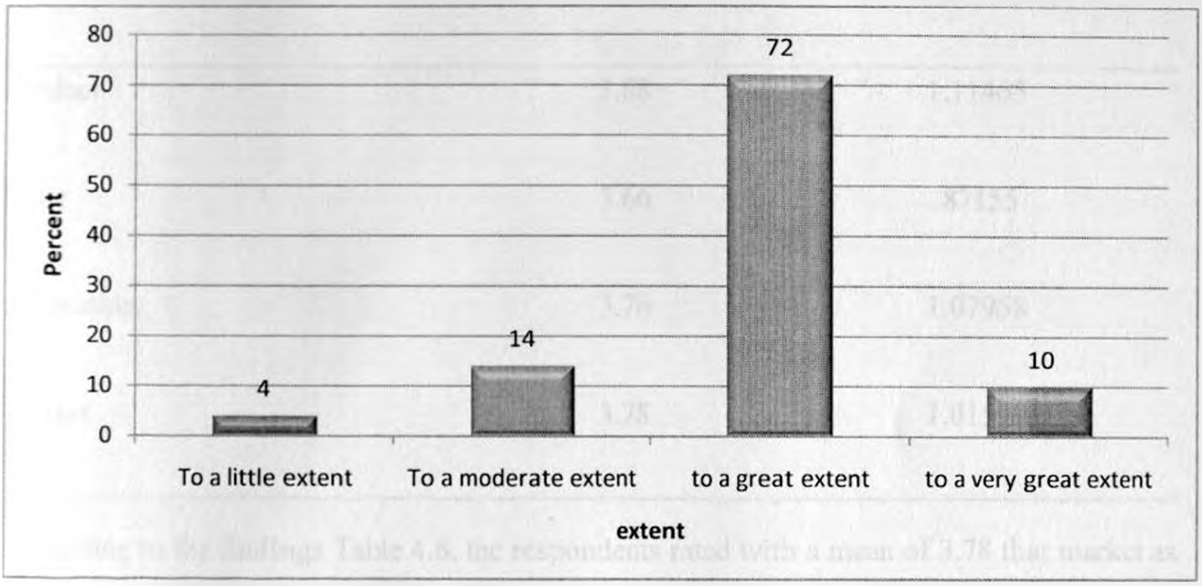
	Mean	Std. Deviation
The industry is highly attractive to allow for diversification	2.68	1.03884
The company has introduced new products and services in the market	3.16	1.11319
The organization has technological and/or marketing strategies in line with existing products	3.40	1.21218

From the findings in Table 4.5, the respondents agreed with a mean of 3.40 that the organization has technological and/or marketing strategies in line with existing products. In addition, the respondents agreed with a mean of 3.16 that the company has introduced new products and services in the market. Lastly, the respondents agreed with a mean of 2.68 that the industry is highly attractive to allow for diversification

4.4.3 Differentiation Strategies

The researcher also requested the respondents to indicate the extent that the companies apply differentiation strategies as a competitive strategy. The results were as shown in Figure 4.6.

Figure 4.6: Extent of use of differentiation strategies



According to the findings in Figure 4.6, 72% of the respondents indicated the extent that the company applies differentiation strategies as a competitive strategy is great. 14% indicated that the extent that the company applies differentiation strategies as a competitive strategy is moderate. 10% of the respondents indicated that the extent that the company applies differentiation strategies as a competitive strategy is very great and lastly 4% of the respondents indicated that the extent that the company applies differentiation strategies as a competitive strategy is little. It is clear that most of the respondents indicated that the extent that the company applies differentiation strategies as a competitive strategy is great.

The researcher requested the respondents to rate the level of application of the stated differentiation strategies in their company. The researcher obtained the results as shown Table 4.6.

Table 4.6: Rating of differentiation strategies

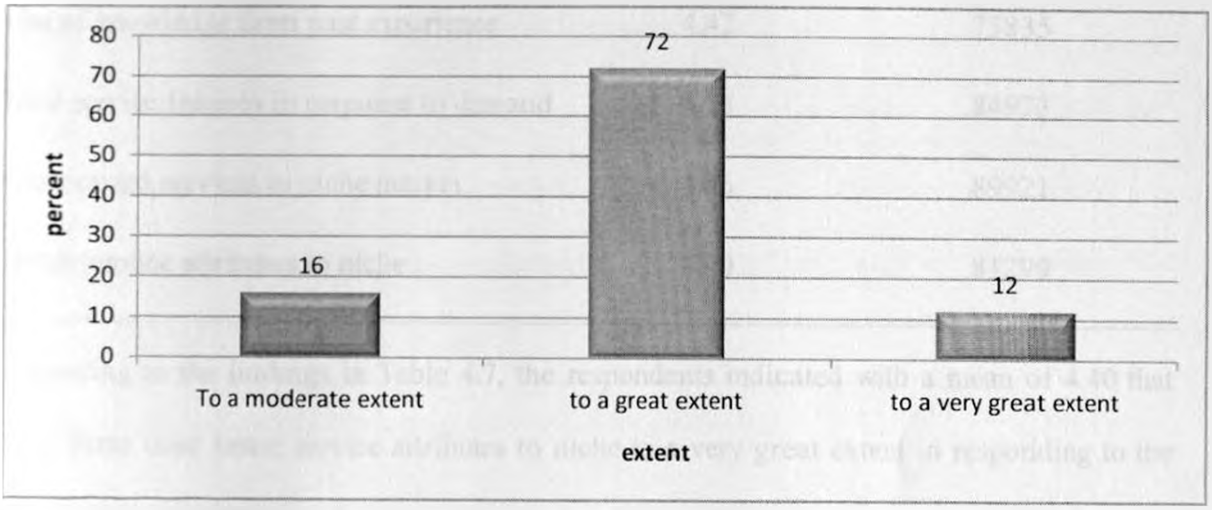
Differentiation strategies	**Mean**	**Std. Deviation**
Product	3.68	1.11465
Price	3.66	.87155
Innovation	3.76	1.07968
Market	3.78	1.01599

According to the findings Table 4.6, the respondents rated with a mean of 3.78 that market as a differentiation strategy is applied to a great extent. In addition, the respondents rated with a mean of 3.76 that innovation as a differentiation strategy is applied to a great extent. Further, the respondents rated with a mean of 3.68 that product differentiation strategy is applied to a great extent. Lastly, the respondents rated with a mean of 3.66 that price as differentiation strategy is applied to a great extent as well. This shows that the differentiation strategies applied to a great extent in the companies include market differentiation, followed by innovation, then product differentiation while price differentiation was applied to a less extent.

4.4.4 Competitive positioning

The respondents were also requested to indicate the extent that their firm adopts competitive positioning strategies. The results obtained were as shown in the Figure 4.7.

Figure 4. 7: Extent of use of competitive positioning



From the findings in Figure 4.7, 72% of the respondents indicated that the extent that their firm adopts competitive positioning strategies is great. 16% of the respondents indicated the extent that their firm adopts competitive positioning strategies is moderate while 12% of the respondents indicated that the extent that their firm adopts competitive positioning strategies is very great. It can therefore be deduced that most of the respondents indicated that the extent that their firm adopts competitive positioning strategies is great.

The researcher requested the respondents to also indicate the extent their firms use each of the stated competitive positioning aspects in responding to the turbulent external environment. The results were as shown in Table 4.7.

Table 4. 7: Aspects of competitive positioning

	Mean	Std. Deviation
Keeping charges lower than competition	3.74	1.17473
Keeping overheads lower than others	3.84	1.13137
Use of knowledge from past experience	4.42	.75835
New service features in response to demand	4.18	.84973
Customized services to niche market	4.26	.89921
Better service attributes to niche	4.40	.83299

According to the findings in Table 4.7, the respondents indicated with a mean of 4.40 that their firms used better service attributes to niche to a very great extent in responding to the turbulent external environment. Also, the respondents indicated with a mean of 4.26 that their firms use customized services to niche market in responding to the turbulent external environment to a very great extent. Also the respondents indicated with a mean of 3.84 that their firms use keeping of overheads lower than others to a great extent in responding to the turbulent external environment. Lastly, the respondents indicated with a mean of 3.74 that their firms use keeping of charges lower than competition in responding to the turbulent external environment to a great extent as well.

4.5 Challenges in the external environment

The researcher further requested the respondents to indicate extent that the company experiences the stated challenges in the external environment that affect their operations. The researcher obtained the results as shown in Table 4.8.

Table 4. 8: Challenges in the external environment

	Mean	Std. Deviation
Distinct technological change/ advancements	3.84	1.09470
Increasing need to maintain high quality services due to increased customer demand for quality	4.10	1.05463
Changing legal environment such as the regulatory guidelines	4.10	1.14731
Increasing inflation rate has affected the cost of rollout and equipment	4.54	1.02240
Licensing of other providers (new entrants into the industry) who offer low cost services and products	4.08	1.14000
Global financial crisis	3.92	1.27520
Political instability	2.60	1.34012
Entry of many competitors due to liberalization of the economy	4.06	1.09563
Regulation and policies.	4.12	1.08119

According to the findings in Table 4.8, the respondents indicated that increasing inflation rate has affected the cost of rollout and equipment in their company to a very great extent as shown by a mean of 4.54. Also the respondents indicated with a mean of 4.12 that regulation and policies affects the operations of their company to a great extent. Further, the respondents indicated with a mean of 4.10 that the increasing need to maintain high quality services due to increased customer demand for quality affects the operations of their company to a very great extent. In addition, the respondents indicated with a mean of 4.10 that changing legal environment such as the regulatory guidelines affects the operations of their company to a very great extent. The respondents further indicated with a mean of 4.08 that licensing of other providers (new entrants into the industry) who offer low cost services and products affects the operations of their company to a very great extent. The respondents also indicated with a mean of 4.06 that entry of many competitors due to liberalization of the economy affects the operations of their company to a great extent. Additionally, the respondents indicated with a mean of 3.92 that global financial crisis affects the operations of their company to a great extent. Further, the respondents indicated with a mean of 3.84 that distinct technological change/ advancements affect the operations of their company to a great extent. Lastly, the respondents indicated with a mean of 2.60 that political instability affects the operations of their company to a moderate extent.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter outlines the summary of findings derived from the study. The purpose of this study was to establish the strategies adopted by building and construction firms and the challenges that they face as they operate in turbulent environmental conditions in Nairobi, Kenya. The study assessed the various strategies employed and their performance in coping with the challenges facing the firms in the turbulent environmental conditions of Nairobi, Kenya.

5.2 Summary

In relation to strategies adopted to cope with external environmental turbulences, the study revealed that firms have adopted the financing strategy (for example, debt rescheduling, raising equity), business strategy (cost focus, differentiation or hybrid), growth strategy (consolidation, withdrawal, launching new products, entering new markets) and portfolio strategy (divestment, acquisition, alliance, new product development. According to Chepurenko (2000), when businesses see their economic environment as turbulent, complex and competitive, they respond to align with the environment. The study also revealed that the company uses restructuring strategic such as business process and authority patterns as responses in the changing external environment.

The study established that the companies use diversification strategies such as horizontal diversification, conglomerate diversification/ lateral diversification and concentric diversification in responding to the turbulent external environment. Further, the study established that the organizations have technological and/or marketing strategies in line with existing products and have introduced new products and services in the market. Kazmi (2002) observed that a technological breakthrough can have a sudden and dramatic effect on firm's environment. It may spawn new markets and products or significantly shorten the anticipated life of a manufacturing facility. Hence for a firm to stay successful, it must strive to understand both the existing technological advances that can affect its products and services also the ability to forecast future technological advances helps alert strategic mangers to both impending challenges and promising opportunities.

The study established that the extent that the firms apply differentiation strategy as a competitive strategy is great. Pearce and Robinson (2007) contend that strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute. Construction companies adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources.

The study revealed that the extent that firms adopt competitive positioning strategies is great. In addition, the study established that firms use better service attributes to niche, customized services to niche market, apply knowledge from past experience and use new service features in response to demand to a very great extent in responding to the turbulent external environment. In relation to challenges in the external environment, the study established that the firms experience inflation rate that has affected the cost of rollout and equipment, regulation and policies and increasing need to maintain high quality services due to increased customer demand for quality.

5.3 Conclusions

From the findings, the study concludes that the strategies adopted to a great extent to cope with external environmental turbulences are financing strategy, business strategy, growth strategy and portfolio strategy in dealing with turbulent environmental conditions.

The study also concludes that most organizations have technological and/or marketing strategies in line with existing products. A good number of organizations have introduced new products and services in the market. In relation to differentiation strategies, the study concludes that it is applied to a great extent especially in terms of market innovation, product and price.

The study further concludes that the firms in the construction industry encounter challenges such as inflation rate that affect the cost of rollout and equipment, increasing need to maintain high quality services due to increased customer demand for quality.

5.4 Recommendations

5.4.1 Recommendations for Policy and Practice

Foremost, the study has established that the firms face cut-throat competition due to the steadfast entry of foreign competitors as a result of liberalization of the economy. This study therefore recommends that the institutions charged with the responsibility of licensing new firms to regulate the entry of new firms so as to avoid unhealthy competition.

Secondly, this study established that the increasing need to deliver high quality products due to increased customer demand for quality is a challenge being faced by many of the firms in Nairobi. This study therefore recommends that the firms should continuously organise to have their employees attend workshops and trainings to keep them abreast with emerging technology and trends.

Thirdly, the study revealed that the strategy of increased investment by firms so as to attain market leadership is quite effective in coping with external environmental turbulences. As a result, this study recommends that ease of accessibility to financing by the firms should be enhanced. There should also be consistent monitoring of such projects by regulators and oversight body to enhance contractor obligations.

The study also recommends the creation of an oversight body that will harmonize and consistently oversee the enforcement of the policies and procedures of the industry in accordance with the key performance indicators of the industry namely cost, time and resources.

5.4.2 Recommendations for Further Research

This study concentrated on the strategies adopted by building and construction firms based in Nairobi to cope with external environmental turbulence. However, this is not conclusive for Kenya considering that there are other major cities like Mombasa and Nakuru, and there exist similar firms facing challenges as well. This makes the findings of this study to be limited to Nairobi and its environs. Further studies should be undertaken in all other major cities so as to come up with exhaustive findings on the strategies adopted by the firms in coping with the challenges in their business environments and thus give conclusive recommendations that would be adopted countrywide.

Secondly, further studies should also be done on the strategies adopted by firms in other sectors such as the agricultural, financial, and manufacturing sectors to cope with external environmental turbulence as Kenya aspires to attain middle income economy through the Vision 2030 blue print.

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APPENDICES

Appendix I: Introduction

I am master of business administration student at the Nairobi University and in my final year of study.

As part of the requirement for the award of the degree of Master of Business Administration for graduation. I'm undertaking a research on **STRATEGIES ADOPTED TO COPE WITH EXTERNAL ENVIRONMENTAL TURBULENCE BY BUILDING AND CONSTRUCTION FIRMS IN NAIROBI, KENYA.**

In this regard, I'm kindly requesting for your support in terms of time, and by responding to the attached questionnaire. Your accuracy and candid response will be critical in ensuring objective research.

It will not be necessary to write your name on this questionnaire and for your comfort, all information received will be treated in strict confidence.

Thank you for your valuable time on this.

Yours faithfully

Allan Mwangi

Appendix II: Questionnaire

INSTRUCTION

This questionnaire consists of two parts. Please answer all the questions by ticking appropriately or writing on the spaces provided.

PART A: GENERAL INFROMATION

1) Age of Business/Year of Incorporation or Registration

   1-2 years [ ] 3-5 years [ ]

   6-8 years [ ] 9-10years [ ]

   Above 10 years [ ]

2) Ownership of the firm

   Sole Proprietorship [ ] Partnership [ ] Ltd Liability Co. [ ]

3) Number of employees

   1-5 [ ] 6-10 [ ]

   11-15 [ ] 16-20 [ ]

   Above 20 [ ]

4) What is your education level? (Tick as applicable)

   Primary [ ] Secondary [ ]

   Diploma/certificate [ ] Bachelors' degree [ ]

   Postgraduate [ ]

5) How long have you worked in the firm?

   1-2 years [ ] 3-5 years [ ]

   6-8 years [ ] 9-10years [ ]

   Above 10 years [ ]

STRATEGIES ADOPTED TO COPE WITH EXTERNAL ENVIRONMENTAL TURBULENCES

6) To what extent does your firm adopt the following strategies in coping with external environmental turbulences? Use a scale of 1 to 5 where 1 is 'Not at all' and 5 is 'Very great extent'.

	1	2	3	4	5
Portfolio strategy (divestment, acquisition, alliance, new product development)	10	2	17	6	15
Growth strategy (consolidation, withdrawal, launching new products, entering new markets)			3.3		
Business strategy (cost focus, differentiation or hybrid)					
Financing strategy (for example, debt rescheduling, raising equity)					
Increased investment with the aim of attaining market leadership					
Holding the investment level to continue with tactics used previously					
Shrinking selectively to reposition the business, by retrieving the value of some prior investments while reinvesting elsewhere if necessary					
Milking the investment to harvest the value of earlier investments without regard for long-run positioning					
Immediate divestment to recoup asset value					

RESTRUCTURING STRATEGIC RESPONSES

7) To what extent does the company use restructuring strategic responses in the changing external environment?

To a very great extent	[ ]	To a great extent	[ ]
To a moderate extent	[ ]	To a little extent	[ ]
To no extent	[ ]		

8) To what extent do the restructuring strategies involve the following factors in responding to the changing external environment? Use a scale of 1 to 5 where 1 is 'Not at all' and 5 is 'Very great extent'.

Factors	1	2	3	4	5
Control patterns					
Authority patterns					
Business process					

DIVERSIFICATION STRATEGIES

9) To what extent does the company use diversification strategies in responding to the turbulent external environment?

To a very great extent	[ ]	To a great extent	[ ]
To a moderate extent	[ ]	To a little extent	[ ]
To no extent	[ ]		

10) To what extent do the restructuring strategies involve the following factors in responding to the changing external environment? Use a scale of 1 to 5 where 1 is 'Not at all' and 5 is 'Very great extent'.

	1	2	3	4	5
Concentric diversification (changing marketing plan to achieve strategic fit)					
Horizontal diversification (entering a new business/ adds new products or services that are unrelated to current products for the current customers)					
Conglomerate diversification/lateral diversification (marketing new products or services to new groups of customers).					

11) To what extent do you agree with the following statements regarding the diversification strategy as used by organizations in responding to the changing external environment? Use a scale of 1 to 5 where 1 is 'Not at all' and 5 is 'Very great extent'.

Diversification strategies	**1**	**2**	**3**	**4**	**5**
The industry is highly attractive to allow for diversification					
The company has introduced new products and services in the market					
The organization has technological and/or marketing strategies in line with existing products					

DIFFERENTIATION STRATEGIES

12) To what extent does the company apply differentiation strategies as a competitive strategy?

To a very great extent	[ ]	To a great extent	[ ]
To a moderate extent	[ ]	To a little extent	[ ]
To no extent	[ ]		

13) Rate the level of application of the following differentiation strategies in your company. Use a scale of 1 to 5 where 1 is 'Not at all' and 5 is 'Very great extent'.

Differentiation strategy	1	2	3	4	5
Product					
Price					
Innovation					
Market					

COMPETITIVE POSITIONING

14) To what extent does your firm adopt competitive positioning strategies?

To a very great extent	[ ]	To a great extent	[ ]
To a moderate extent	[ ]	To a little extent	[ ]
To no extent	[ ]		

15) To what extent does your firm use each of the following competitive positioning in responding to the turbulent external environment? Use a scale of 1 to 5 where 1 is to no extent and 5 is to a very great extent

Competitive Positioning Strategy Options	**1**	**2**	**3**	**4**	**5**
Keeping charges lower than competition					
Keeping overheads lower than others					
Use of knowledge from past experience					
New service features in response to demand					
Customized services to niche market					
Better service attributes to niche					

16) To what extent does the company experience the following challenges in the external environment that affect their operations? Use a scale of 1 to 5 where 1 is to no extent and 5 is to a very great extent

	1	2	3	4	5
Distinct technological change/ advancements					
Increasing need to maintain high quality services due to increased customer demand for quality					
Changing legal environment such as the regulatory guidelines					
Increasing inflation rate has affected the cost of rollout and					

equipment					
Licensing of other providers (new entrants into the industry) who offer low cost services and products					
Global financial crisis					
Political instability					
Entry of many competitors due to liberalization of the economy					
Regulation and policies.					

THANK YOU!!

Appendix III: Categories of Construction Companies

A	Over 500M
B	250 – 500M
C	200 – 250 M
D	150 -200M
E	100 – 150 M
F	50 – 100 M
G	20 – 50 M
H	Below 20 M

Source: Ministry of Works (2012)