APPLICATION OF GROWTH STRATEGIES AT THE KENYA ASSOCIATION OF MANUFACTURERS

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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

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DEDICATION

To my mother, Mrs Wilkister Odhek, the strongest woman I know

And

My precious nieces, Michelle and Crystal, you make life joyous

ABSTRACT

Business Membership Organizations (BMOs) may not necessarily be profit making organizations but they definitely need to be financially sustainable to survive. Traditionally, BMOs have been overly dependent on their members' subscription fees and occasional donor funding for their sustainability. This comes at the expense of little or no emphasis on exploring new avenues of generating income for themselves. However with the changes in the business environment and the resultant high cost of doing business it has become imperative for BMOs to show value to their members by proving the reason for their existence in order to sustain the existing members' loyalty and attract new ones. Companies are no longer willing to pay BMOs as a formality, not to mention that the BMOs financial needs are also increasing. As such BMOs are being forced to look beyond subscriptions. They are now making a conscious decision to develop their growth strategies by building on existing services while adding on others. The services rendered by the BMOs are quickly becoming a prerequisite for not only attracting new members but also sustaining existing ones. BMOs like KAM need to make a conscious decision to plan for their future growth by optimizing on the opportunities that exist in the environment while mitigating the threats.

Whereas KAM has experienced significant growth in its membership and achievements in the past decade, there is increased pressure and demand for more value in order to sustain its high standing. This study aimed to assess how the Association can ensure its growth and sustain its members (and consequently attract new ones) through the application of Ansoff's growth strategy in its service provision.

The research was conducted by way of a case study to allow the researcher to focus on in depth data of the association hence come up with implementable conclusions and recommendations for the Association and other beneficiaries of this study.

Whereas the study shows that KAM has made serious attempts to apply the Ansoff growth strategy in its service offering, namely through market penetration, market development and product diversification, there is little that KAM has done in terms of diversification. The study also confirms that KAM's current market largely remains to be manufacturers and the Association already has an array of services offered to its current market. The study further reveals that KAM services have successfully penetrated new sectors and that there is still room for improvement for KAM within its current market and beyond first with the services it already has, thereafter with new services. From this study, KAM's main opportunity lies in market development.

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ACRONYMS AND ABBREVIATIONS

AGOA	– Africa Growth and Opportunity Act
BCG	– Boston Consulting Group
BDP	– Business Development Plan
BMO	– Business Membership Organization
DIT	– Directorate of Industrial Training
EPZ	– Export Processing Zones
GE	– General Electric
KAM	– Kenya Association of Manufacturers
KIRDI	– Kenya Industrial Research and Development Institute
SMEs	– Small and Medium Enterprises

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Organizations exist to offer goods and services in their respective economies to improve the standards of living of the people in those economies and beyond, as they also make profit from the goods and services they provide. The differences in strategic choices of organisations can often be attributed to the type of market in which the company operates. According to Macmillan et al. (2000), changes in business environment play a crucial role in the strategic options that an organisation may pursue over its life stages. Organisations in their usual course exercise the option relating to which products or services they may offer in which markets. Few business people need to be persuaded that firms should be growth-oriented. The firm that does not attempt to grow, it is argued, it is likely not merely to stand still but to stagnate and die (Marris, 1964).

Designing, developing and implementing a growth strategy is one of the ways that organizations ensure their survival. Marris (1964) argued that well planned and well executed expansion is both stimulating and self sustaining, and may thus present to the executive a serious challenge. The future is now not necessarily expected to be an improvement over the past (Ansoff, 1990). Many growth strategies exist in the field of Strategic management: Four categories of growth strategies aid in understanding the specifics. The first category, horizontal integration, strives to increase market power, reduce cost of trade, share product resources, and sell more of the same product. The second category, vertical integration, helps to reduce transportation costs, grasp upstream profit margins and downstream profit margins, and access downstream distribution channels. Following suit, the third category, diversification, consists of internal development of new products, firm acquisition, partnership with similar companies, and new product licensing. Lastly, the intensification growth strategy penetrates the market to increase share, increase customer loyalty, and create promising incentives that target the current customer base.

Ansoff matrix (1957) is one of the most well known frameworks for deciding upon growth strategies of an organisation. This matrix assists organizations to map strategic product market growth. Strategic options relating to which products or services an organisation may offer in which markets are critical to the success of companies. The Ansoff matrix is a useful, though not an exhaustive, framework for an organisation's objective setting process and marketing audits. The Ansoff matrix provides the basis for an organisation's objective setting process and sets the foundation of directional policy for its future (Bennett, 1994). The Ansoff matrix is used as a model for setting objectives along with other models like Porter matrix (1980), BCG (1970), GE matrix (1970) and Gap analysis. This research will focus on the Ansoff Model.

1.1.1 Growth Strategies

Strategy is a method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem. It is a long-term action plan for achieving a goal. It is also defined as the art and science of planning and marshalling resources for their most efficient and effective use. The term is derived from the Greek word for generalship or leading an army.

Johnson and Scholes (Exploring Corporate Strategy) define strategy as follows:

"Strategy is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations". In other words, strategy is about: Where the business is trying to get to in the long-term (direction), which markets a business should compete in and the kind of activities involved in such markets (markets; scope), how the business can perform better than the competition in those markets (advantage), resources (skills, asset, finance, relationships, technical competence, facilities) required in order to compete (resources), external and environmental factors affecting the businesses' ability to compete (environment), and the values and expectations of those who have power in and around business (stakeholders).

Strategy is a tool which offers significant help for coping with turbulence confronted by business firms as well as social organizations, therefore it merits attention as a managerial tool for both the firm and a broad spectrum of social organizations. They further describe strategy as a set of decision making rules for guidance of organizational behaviour. It is seen as a potentially powerful tool for coping with conditions of change, which surround the firm today (Ansoff and McDonnell, 1990).

Aosa (1992) states that strategy is creating a fit between the external characteristics and internal conditions of an organization to solve a strategy problem. The strategy problem is a mismatch between the internal characteristics of an organization and its external environment, matching is achieved through development of an organizations core capabilities that correlate to the external environment enough to enable the exploitation of opportunities existing in the external environment or organizations internal capabilities.

Growth Strategies are grounded in strategic management. Growth Strategy is strategy aimed at winning larger market share, even at the expense of short-term earnings. It can also be defined as tactic used to expand the consumer market for a company's product. Four broad growth strategies are horizontal integration, vertical integration, diversification and intensification. David (2001) further notes that growth strategies may be broadly categorized into intensive, diversification, defensive, joint ventures and combination strategies. Defensive strategies are those strategies where the firm positions itself so that it can defend itself against the competitive forces surrounding it (Johnson and Scholes, 2002). Joint ventures and diversification occur where firms influence the balance of competitive forces they face through the deliberate implementation of strategic moves that strengthen their position (Hackett, 1996). Diversification by itself is the strategy which takes the organization away from its current markets or products or competences (Johnson and Scholes, 2002). This increases the diversity that a corporate centre must oversee. It might occur because the business environment changes threaten both the future and current strategies and throw up new opportunities; or an organization has resources and competences that can be exploited in new areas or due to the expectations of powerful stakeholders. Kotler (2001) defines intensive growth strategies as those that require intensive efforts to improve a firm's competitive position with existing products. It includes market penetration, market development and product development. Ansoff's model is therefore a combination of intensive and diversification strategies.

1.1.2 Business Membership Organizations (BMOs)

Business Membership Organizations (BMOs) may not necessarily be profit making organizations but they need to be financially sustainable to survive. Traditionally, BMOs have been overly dependent on their members' subscription fees and occasional donor funding for their sustainability. This comes at the expense of little or no emphasis on exploring new avenues of generating incomc for themselves. However with the changes in the business environment and the resultant high cost of doing business it has become imperative for BMOs to show value to their members by proving the reason for their existence in order to sustain the existing members' loyalty and attract new ones. Companies are no longer willing to pay BMOs as a formality, not to mention that the BMOs financial needs are also increasing. As such BMOs are being forced to look beyond subscriptions. They are now making a conscious decision to develop their growth strategies by building on existing services while adding on others. The services rendered by the BMOs are quickly becoming a prerequisite for not only attracting new members but also sustaining existing ones. Like anywhere else in the world, Kenya Businesses have come to appreciate the need and role of BMOs or Business Associations in the smooth running of their operations.

Associations are formed when people who have an interest, activity, or purpose in common organize themselves into one formal body either by virtue of what they do or their locality; a society. Business associations have been known to contribute significantly to creation and enrichment of conducive business environment for their members through lobbying, policy advocacy coupled with firm level support leading to enhanced competitiveness and improved market access. Some good examples of effective BMOs in the global arena include: the Confederation of Indian Industries, the London Chamber of Commerce and Industry, the Confederation of Danish Industries, the American Chamber of Commerce while in Africa we have Botswana Chamber of Commerce and Industry, Zambia Chamber of Commerce and Industry, Confederation of Tanzania Industries, Uganda Manufacturers Association, Private Sector Foundation – Rwanda, Burundi Chamber of commerce and Industry among others.

In Kenya alone, it is estimated that there are 248 registered BMOs; this is according to the Business Advocacy Fund (BAF) an organization funded by the Royal Danish Embassy and intended to support business member organisations (BMOs) to engage in private public dialogue and to advocate an improved business environment in Kenya. They include among others: the Federation of Kenya Employers, Kenya Private Sector Alliance, Kenya Chamber of Commerce and Industry, Kenya Association of Manufacturers.

1.1.3 Kenya Association of Manufacturers (KAM)

Kenya Association of Manufacturers (KAM) is one of the most vibrant, dynamic, credible and respected BMOs in Kenya in present day. Established in 1959 as a private sector body, it serves as a representative of Kenya's industry and exists to unite industrialists as well as serve as a common voice for manufacturing and other value add sectors in Kenya. KAM is owned, funded and managed by its members.

The Association's vision is to be a world class BMO effectively delivering services to its members wherever they operate while its mission is to promote competitive manufacturing in a liberalised market. KAM's operations are guided by a Business Development Plan (BDP). The Strategic Intent of the 2011 – 2013 Business

Development Plan is to Create Wealth at corporate and individual levels by advocating for a competitive environment for businesses to operate, thereby creating better industries, growing the economy, creating jobs and hence resulting in better standards of living for Kenyans. The BDP provides the basis for our 3-year strategic thinking towards the attainment of our long-range goals.

The KAM BDP is based on five core functions, each with its own objective: (i) Policy Research & Advocacy mandated to provide proactive, evidence based and result focused policy advocacy services for members (ii) KAM Consulting whose objective is to provide quality demand driven and profitable services to the business community (iii) Membership Development and Retention aimed at ensuring that KAM is the most preferred Business Membership Organisation (BMO) for manufacturing value add industries (iv) Finance, Administration and Planning whose purpose is to ensure KAM is financially sustainable and motivates professional and committed staff members and adheres to the highest standards or corporate governance and (v) Communication whose principle objective is to deliver timely and effective communication to both internal and external stakeholders.

In addition to Nairobi, KAM has established five other regional chapters: Athi River, Mombasa, Eldoret, Nakuru and Nyanza/Western. The chapters exist to develop strategies, priorities and action plans to lobby for policy reforms around various issues at the regional levels.

Currently, KAM represents approximately 670 members who are distributed across 12 key industrial sectors: Building, Mining & Construction, Chemicals & Allied, Energy & Electronics, Food & Beverages, Leather & Footwear, Metal & Allied, Motor Vehicle & Accessories, Paper & Paper Board, Pharmaceutical & Medical Equipment, Plastics & Rubber, Services & Consultants, Textiles & Apparels, Timber, Wood & Furniture and Affiliate Associations.

A major challenge facing KAM is its financial sustainability given the constraints on the membership subscriptions vis-a-vis the increasing financial needs. Traditionally, KAM, like any other BMO, has been overly dependent on their members' subscription fees and occasional donor funding for their sustainability. However with the changing times and tough economic situations globally, these financial sources are no longer guaranteed because companies and donors alike are constantly evaluating how they get value for their hard-earned money. Consequently, KAM has found itself having to justify why their members should continue paying up membership fees. There is a constant demand KAM to keep changing and/or upgrading its services and service delivery to match the needs of their members and other stakeholders in order to remain relevant to those whose interests they were created to represent. KAM, like any other BMO not only in Kenya but the world over, needs to make a conscious decision to plan for its future growth by optimizing on the opportunities that exist in the environment while mitigating the threats.

1.2 Research Problem

KAM, one of the most visible BMOs in Kenya, has experienced tremendous growth in its 52 years of existence in terms of membership, influences and services if offers to its members and potential members. In recent times KAM membership has been growing steadily at an average of 20% per annum, according to the membership development and retention unit at the Association. This growth in membership has also led to an increase of services by the different calibre of member companies resulting in the need to hire more personnel who are experts in different fields who are paid and retained by the membership subscription fees, the main source of income for the Association. These three factors of membership, quality services and financial sustainability have been found to be dependent on each other; one cannot exist without the other. In most cases it is difficult to determine which comes first between increased membership and increased services. One factor is clear though; BMOs like KAM need finances to support and sustain themselves. Whereas KAM has experienced significant growth in its membership and achievements in the past decade, there is increased pressure and demand for more value in order to sustain its high standing. This study aims to assess how the Association can ensure its growth and sustainability to its members (and consequently attract new ones) through the application of growth strategies in its service provision.

Studies have been done on application of growth strategies in profit making organizations namely: Midwa (2008) and Ngigi (2006). A few more have focused on the Kenya Association of Manufacturers: Kiambuthi (2008) and Chao (2010). However, the research has not found studies that relate the application of growth strategies with non-profit making organizations, in particular the Kenya Association of Manufacturers. This study therefore aimed to bridge that gap and answer the question: What are the strategies adopted by KAM?

1.3 Research Objectives

The objective of this study was to establish growth strategies applied by KAM

1.4 Value of the study

The study is meant to demonstrate the relevance of growth strategy to BMOs. The implementation of the research and results thereof will benefit KAM by improving its current service delivery hence future sustainability. Other beneficiaries of this study will be other BMOs in Kenya, East Africa and the larger Africa facing the same quandary of determining what growth strategies would be relevant to establish their continued existence and expansion.

The academia will also benefit to the extent that they will have a better understanding of what BMOs are and that with the right strategy they too can grow like any other business. The academia may also contribute further to the development of BMOs by conducting further research on the other pertinent issues affecting the BMOs and share with the relevant bodies, government or otherwise.

Development partners, government and the wider private sector will get to understand how best to work with KAM and other BMOs in improving the BMOS service delivery to their members and the society at large.

CHAPTER TWO: LITERATURE REVIEW

This chapter focuses on the review of literature related to this research. This was done with a view of collecting views, perspectives and opinions of some of the main growth strategies. The review depends on theoretical literature that is books, research papers, magazines and information from the internet.

2.1 Growth Strategies

Growth marketing strategies are centred on company growth. They focus on increasing sales in existing markets by targeting loyal customers. Information gathered from loyal customer buying history helps to determine ways in which growth can occur. According to Bradford and Duncan (2000), revenue growth is the goal of all businesses. Growth means the potential for higher profits and a stronger position in the market. As revenues grow, so does the value of the enterprise should the owner decide to sell. Finding new customers, new markets, creating new products and doing a better job serving existing customers are all viable growth strategies. Growth strategies answer the question of how the firm should grow. There are a number of different ways of answering that question, but the most common gives four answers:

First answer is horizontal integration which occurs when a firm is being taken over by, or merged with, another firm which is in the same industry and in the same stage of production as the merged firm, e.g. a car manufacturer merging with another car manufacturer. In this case both the companies are in the same stage of production and also in the same industry. This process is also known as a "buy out" or "take-over". The goal of Horizontal integration is to consolidate like companies and monopolize an industry. A term that is closely related with horizontal integration is horizontal expansion. This is the expansion of a firm within an industry in which it is already active for the purpose of increasing its share of the market for a particular product or service.

Second is vertical integration which is the degree to which a firm owns its downstream suppliers and its upstream buyers. Contrary to horizontal integration, which is a consolidation of many firms that handle the same part of the production process, vertical integration is typified by one firm engaged in different parts of production (e.g. growing raw materials manufacturing, transporting, marketing, and/or retailing). It is when vertically integrated companies in a supply chain are united through a common owner. Usually each member of the supply chain produces a different product or (market-specific) service, and the products combine to satisfy a common need. It is contrasted with horizontal integration. Vertical integration is one method of avoiding the hold-up problem. There are three varieties: backward (upstream) vertical integration, forward (downstream) vertical integration, and balanced (both upstream and downstream) vertical integration. A company exhibits backward vertical integration when it controls subsidiaries that produce some of the inputs used in the production of its products. For example, an automobile company may own a tire company, a glass company, and a metal company. Control of these three subsidiaries is intended to create a stable supply of inputs and ensure a consistent quality in their final product. It was the main business approach of Ford and other car companies in the 1920s, who sought to minimize costs by centralizing the production of cars and car parts. A company tends toward forward vertical integration when it controls distribution centers and retailers where its products are sold. Balanced vertical integration means a firm controls all of these components, from raw materials to final delivery.

Third is diversification which seeks to increase profitability through greater sales volume obtained from new products and new markets. Fourth is the intensification growth strategy which penetrates the market to increase share, increase customer loyalty, and create promising incentives that target the current customer base.

2.1.1 Ansoff's model of Growth Strategy

Ansoff's matrix is one of the most well know frameworks for deciding upon strategies for growth. The well known tool of Ansoff matrix was published first in the Harvard Business Review (Ansoff, 1957). It was consequently published in Ansoff's book on 'Corporate Strategy' in 1965 (Kippenberger, 1988). Organisations have to choose between the options that are available to them, and in the simplest form, organisations make the choice between for example, taking an option and not taking it. Choice is at the heart of the strategy formulation process for if there were no choices, there will be little need to think about strategy. According to Macmillan et al (2000), "choice and strategic choice refer to the process of selecting one option for implementation." Organisations in their usual course exercise the option relating to which products or services they may offer in which markets (Macmillan et al, 2000).

The Ansoff Growth matrix is a tool that helps businesses decide their product and market growth strategy. It provides the basis for an organisation's objective setting process and sets the foundation of directional policy for its future (Bennett, 1994). Ansoff's product/market growth matrix suggests that a business' attempts to grow depend on whether it markets new or existing products in new or existing markets.

The Ansoff matrix presents the product and market choices available to an organisation. Herein markets may be defined as customers, and products as items sold to customers (Lynch, 2003). The Ansoff matrix is also referred to as the market/product matrix in some texts. Some texts refer to the market options matrix, which involves examining the options available to the organisation from a broader perspective. The market options matrix is different from Ansoff matrix in the sense that it not only presents the options of launching new products and moving into new markets, but also involves exploration of possibilities of withdrawing from certain markets and moving into unrelated markets (Lynch, 2003). Ansoff matrix is a useful framework for looking at possible strategies to reduce the gap between where the company may be without a change in strategy and where the company aspires to be (Proctor, 1997). The output from the Ansoff product/market matrix is a series of suggested growth strategies that set the direction for the business strategy (Ansoff 1957, 1989). These are described below:

Market penetration is the name given to a growth strategy where the business focuses on selling existing products into existing markets, that is, occurs when a company penetrates a market with its current products. It is important to note that the market penetration strategy begins with the existing customers of the organisation. This strategy is used by companies in order to increase sales without drifting from the original product-market strategy (Ansoff, 1957). Companies often penetrate markets in one of three ways: by gaining competitors customers, improving the product quality or level of service, attracting non-users of the products or convincing current customers to use more of the company's product, with the use of marketing communications tools like advertising etc. (Ansoff, 1989, Lynch, 2003). This strategy is important for businesses because retaining existing customers is cheaper than attracting new ones, which is why KAM should emulate companies like BMW and Toyota (Lynch, 2003), and banks like HSBC engage in relationship marketing activities to retain their high lifetime value customers.

Market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets. When a company follows the market development strategy, it moves beyond its immediate customer base towards attracting new customers for its existing products. This strategy often involves the sale of existing products in new international markets. This may entail exploration of new segments of a market, new uses for the company's products and services, or new geographical areas in order to entice new customers (Lynch, 2003). For example, Arm & Hammer was able to attract new customers when existing consumers identified new uses of their baking soda (Christensen et al, 2005). Likewise, KAM can attract new members by selling the services it already has.

Another strategic option for an organisation is to develop new products. Product development occurs when a company develops new products catering to the same market. It important to note that product development refers to significant new product developments and not minor changes in an existing product of the firm. The reasons that justify the use of this strategy include one or more of the following: to utilise of excess production capacity, counter competitive entry, maintain the company's reputation as a product innovator, exploit new technology, and to protect overall market share (Lynch, 2003). Often one such strategy moves the company into markets and towards customers that are currently not being catered for.

Diversification strategy is distinct in the sense that when a company diversifies, it essentially moves out of its current products and markets into new areas. It is important to note that diversification may be into related and unrelated areas. Related diversification may be in the form of backward, forward, and horizontal integration. Backward integration takes place when the company extends its activities towards its inputs such as suppliers of raw materials etc. in the same business. Forward integration differs from backward integration, in that the company extends its activities towards its outputs such as distribution etc. in the same business. Horizontal integration takes place when a company moves into businesses that are related to its existing activities (Lynch, 2003; Macmillan et al, 2000). It is important to note that even unrelated diversification often has some synergy with the original business of the company. The risk of one such manoeuvre is that detailed knowledge of the key success factors may be limited to the company (Lynch, 2003). While diversified businesses seem to grow faster in cases where diversification is unrelated, it is crucial to note that the track record of diversification remains poor as in many cases diversifications have been divested (Porter, 1987). Scholars have argued that related diversification is generally more profitable (Macmillan et al, 2000; Pearson, 1999). Therefore, diversification is a high-risk strategy as it involves taking a step into a territory where the parameters are unknown to the company. The risks of diversification can be minimised by moving into related markets (Ansoff, 1989).

While Ansoff analysis helps in mapping the strategic options for companies, it is important to note that like all models, it has some limitations. By itself, the matrix can tell one part of the strategy story but it is imperative to look at other strategic models like SWOT analysis and PESTLE in order to view how the strategy of an organisation is formulating and might change in the course of its future. Therefore, the steps to be taken while conducting a strategic analysis of an organisation include SWOT analysis, PESTEL and Ansoff matrix as fundamental models of analyses, which should be used in conjunction and not in isolation, to view the complete strategic scenario. Also, recommendations made on the basis on only one of the models are not concrete and lack in depth. While the role of analysis in making strategic choices cannot be undermined, it is imperative to note that judgement plays a crucial role in making critical strategic choices that may change the future of the firm (Macmillan et al, 2000). Lastly, the use of Ansoff matrix as a marketing tool may not be really useful as the matrix is critical for analysing the strategic path that the brand may be following, and does not essentially identify marketing options.

2.2 Empirical Studies

Midwa (2008) in his study on Intensive Growth strategies adopted by Total Kenya Ltd in response to competition in the oil Industry in Kenya, sought to determine how the Ansoff intensive growth strategies of market penetration, market development and product development have been applied by Total Kenya Limited. The objectives of this research were to determine the extent to which Total Kenya Limited has pursued intensive growth strategies to establish factors that have influenced the choice of such strategies and to determine the influence of these strategies on the firm's market share.

Ngigi (2006) on the other hand, looked at the comparison of value and growth strategies at the Nairobi Stock Exchange (NSE). The study sought to find out whether there exists a value premium at the NSE if stocks are sorted on the basis of book to market value. It's indicative from the study that value stocks for the period under study, though the difference between the performance between the two portfolios was dismal. It therefore appears that the two styles of investment can still be appropriately applied at the NSE.

Kiambuthi (2008) focused on change management at KAM; the case study sought to establish the approach used by KAM, a leading BMO in the country in managing change. It also tried to identify challenges of change management and how they were handled.

Chao (2010) also carried out a study on KAM this time focusing on the Associations response to changes in the business environment facing manufacturers in Kenya. The study identified the main factors that influence change of the business environment in Kenya as political stability, intellectual property rights, infrastructure both energy and roads, and the legal and regulatory frameworks governing businesses. In a bid to improve the business environment in Kenya, KAM has engaged various government ministries, government agencies, parliamentary select committees and offices of the Prime Minister and President. The study revealed that there have been notable improvements in the business environment. It was also observed that KAM's responds to the business environment affecting manufacturers by influencing the government through evidence based advocacy (impact). The study noted that the decision to implement or respond to the business environment is solely a

government's responsibility as such KAM's role is therefore to lobby the government to take necessary action by identifying the issues affecting the manufacturers, show how much it hurts the manufacturers and propose solutions to the government.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

A case study research design was used. Both Young(1960) and Kothari (1990) concured that a case is a very powerful form of qualitative analysis that involves careful and complete observation of a social unit – a person, institution, family or an entire cultural community. Mugenda wa Mugenda (1999) observed that a case study is an in-depth examination of an institution. It is a method of study that drills down rather than casts wide, in other words, it emphasizes on depth rather than breadth. Owing to its focus on detail, the case study was preferred as the research design of this study because it has the ability to reveal most aspects through which growth strategies could enable KAM remain relevant and competitive as a BMO. Case study was also preferred to cross-sectional survey and others because the objectives of the study require an in depth understanding of KAM and its application of growth strategies.

3.2 Data Collection

The target respondents were officers in the top management of KAM namely: the Chief Executive Officer, the Chief Operation Officer, the Manager in charge of membership services, the senior executive officer in charge of Policy, research and advocacy, and the Membership Development Executive Officer. Others will include middle level officers who have are involved in the designing and implementation of the organization's growth strategy: two executive officers in Corporate Affairs, officer in charge of Business information, Executive officer for Energy Services, Assistant Executive officer Energy services, Executive Officer in charge of business regulations and the Trade policy officer.

The study used multiple sources to obtain sufficient information and provide reasonable reliability of the results. Data and evidence collection was based on the analysis of primary and secondary data in order to collect complete and dependable information and obtain a clear picture of the problem. Primary data is data never gathered before; it is gathered for the first time by the researcher. It is unvarnished information about results of a study, interview and experiment conducted by the researcher personally. Secondary data on the other hand is preexisting data gathered by others for purposes other than the solution of the problem at hand, i.e. data not gathered for purposes of the current research. These can be published sources and research conducted by other people.

Primary information was gathered through interviews with the management team at the KAM secretariat. An interview guide assisted the respondents to structure their responses during the interview session. Secondary sources of information include: KAM strategic plan, members' directory and brochures.

3.3 Data Analysis

Conceptual content analysis method was used to analyze collected data given that both the primary and secondary data will be qualitative in nature. According to Cooper and Schindler (2003) this analysis provides the researcher with a qualitative picture of the respondents concerns, ideas, attitudes and feelings. It measures the semantics of the 'what' aspect of a message. Ole Holsti (1969) offered a broad definition of content analysis as "any technique for making inferences by objectively and systematically identifying specified characteristics of messages."

Content Analysis has been defined as "a research technique for the objective, systematic, and quantitative description of manifest content of communications" Berelson (1956, p.74). Content analysis is a research tool focused on the actual content and internal features of media. It is used to determine the presence of certain words, concepts, themes, phrases, characters, or sentences within texts or sets of texts and to quantify this presence in an objective manner

Texts can be defined broadly as books, book chapters, essays, interviews, discussions, newspaper headlines and articles, historical documents, speeches, conversations, advertising, theater, informal conversation, or really any occurrence of communicative language. Similar studies that have used this method include that of Kiambuthi (2008) and Chao (2010).

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter will cover the research findings and discussions of the study results. The data in this study was collected through personal interviews. 10 out of the 12 target respondents were interviewed and filled in questionnaires. The two who did not respond were: the Chief Executive Officer who could not be reached due to prior work engagements and the officer in charge of Trade Policy who was out of the country on official duty at the time of the interview. The data collected was summarized and presented in the form of tables reflecting frequencies and percentage of the respondents on the various issues.

The respondents were from different levels: 4 of them were top management and 6 were from middle level management. Their years of service at KAM also varied: two had served for less than 1 year, four had worked for between 1 – 5 years, another four had served between 5 – 10 years while one had worked at the Association for over 10 years. In terms of the role they played in the formulation and implementation of KAM strategy, nine (9) out of 10 were involved in both formulation and implementation while one was involved in the implementation only.

4.2 The Environment in which BMOs exist in Kenya

The responses on the environment in which BMOs exist were also varied: one respondent thought the environment was dynamic while another thought it was dynamic, challenging and difficult. Yet another thought of it as unpredictable and one more described it as dynamic and unpredictable. Challenging and difficult came from 2 respondents and another 2 described the BMOs environment as competitive. Other 2 respondents thought the environment was exclusive and full of potential.

The main reasons given for the difficult, challenging, unpredictable environment were: the political and economic stability of the country and high cost of doing business as a result of various regulations while the competitive and dynamic environment was attributed to the high number of BMOs in the market.

4.4 Factors that influence the growth and survival of BMOs

The top ranked factors that influence the growth and survival of BMOs with 4 respondents each were: service delivery and understanding members needs (customer focus), financial stability (revenue generation, membership subscription renewals) and size of the BMO, as well as competence of staff (professionalism) and leadership within the BMO. Factors that had 3 respondents each were: patnerships/collaboration/networks with other BMOs and competition and influence to other BMOs. Other factors given include: recognition by government, political and economic stability of the country, technology, and having the right vision and mission.

4.5 KAM's response to the factors influencing the growth and survival of BMOs

The key responses by KAM included: lobbying and advocating for a favourable business environment on key areas impacting business, development of firm level interventions which serve as a service to members and a source of revenue for the Association, development of the KAM secretariat workforce through a strong and competent staff and good governance structures, expansion of the KAM membership base and collaboration with other likeminded BMOs.

Table 1: Status of KAM

<table>
<tr><th></th><th>Frequency</th><th>Percentage</th><th>Indications given to signify growth</th></tr>
<tr><td>Grown</td><td>8</td><td>80%</td><td rowspan="4">• Steady and increased membership
• Increased competent workforce to cater for the increased demand of services from members
• Diversification of services
• Recognition and respect from government and other stakeholders
• Increased visibility locally and globally
• Broadened financial base</td></tr>
<tr><td>Stagnated</td><td>0</td><td>0%</td></tr>
<tr><td>Declined</td><td>0</td><td>0%</td></tr>
<tr><td>No response</td><td>2</td><td>20%</td></tr>
</table>

4.6 KAM's main source of income

All the respondents pointed out that the Association's main source of income was the membership subscriptions. In addition to membership subscriptions, 50% of them mentioned project grants from development partners/donors, 20% talked about fees from various services offered and another 20% pointed out sale of publications. Of these, the respondents felt that the most sustainable source of income for the Association at the moment was membership subscriptions (so long as the members' needs were met satisfactorily), followed by fee based services. It was however pointed out that grants from development partners/donors were susceptible to political interference hence not sustainable for the Association.

4.7 KAM's Market and Services

80% of the respondents cited companies in the local manufacturing and value add sector who have subscribed to the Association's membership as KAM's current market segment, with 20% of them adding the service industry. The services currently offered to this segment include: policy advocacy, visa processing for exporters under the Africa Growth and Opportunity Act (AGOA) in the US market, export visas for companies in the Export Processing Zones (EPZs), processing and verification of document for duty remission for imported raw materials for finished goods intended for export, facilitation of work permits for expatriates working in KAM member companies, provision of business information, Trade/Export development activities, and firm level interventions such as training, energy audits and other energy services, as well as capacity building programs for continual improvement. The respondents also noted that KAM was ensuring that it sells more of the above services to its current market segment through advertising in print media, on its website, circulars and publications. Other means used were exhibitions, business forums, creation of a special unit in the association to deal with fee based services, promotional materials and referrals. The challenges experienced in this include: reduced uptake of seminars, unwillingness of some members to pay extra for services over and above their annual subscription, lack of training incentives, lack of well defined and packaged services, inadequate selling and marketing strategies and competition from other service providers. The respondents suggested that in order for KAM to sell more to its current market segment it needs to introduce new services which are relevant to business today (30%), improve KAM's capacity to influence changes (10%), be more proactive in its approach as opposed to being reactive (10%), segment the services to particular sectors (20%), engage in personal selling and firm level marketing (10%), subsidize the service fees, introduce fee structure and pursue DIT registration for training reimbursement (10%), and reach out to SMEs (10%).

On selling the Association's existing services into new markets, all the respondents agreed that these services were already reaching new markets namely: attendance on non KAM members to seminars organized by the Association, uptake of non members of the duty remission service as well as work permit processing, energy audits focusing on hotels, schools, horticulture companies and hospitals, extending export/trade related services to SMEs, and sale of KAM publication to more than just KAM members.

30% of the respondents suggested that other new markets that KAM would target could be consultancy, 10% mentioned manufacturing firms outside Kenya, 20% tourism and horticulture, 10% suggested sectoral associations, while 30% of the respondents did not suggest any additional markets. Some of the ways suggested to attract the new market segments included: direct marketing and personalised selling (50%), network forums (10%), collaborations and partnerships with other BMOs (20%), intensified market research to ascertain new customers needs for existing KAM services and improving the quality of the existing services (10%). However, 10% of the respondents did not answer this question. The challenges in extending the existing services to these new markets included lack of capacity to handle expansion cited as the main impediment by 30% of the respondents. Others mentioned were:

keeping target audience engaged when there is no crisis, introducing new markets outside the Association's main objective could lead to loss of focus, and cost of the services vis-a-vis the ability and willingness of the target markets to pay. 20% of the respondents did not attempt this question.

On product development where respondents were asked whether KAM aims to introduce new services into the existing markets, 80% of the respondents felt that KAM already segments its services to target different member categories while 10% felt that KAM does not segment its services and 10% did not respond. Those who said KAM segments its services pointed that it does so by turnover and size of the company as well as by the nature of business the company is in (sectoral needs identified). The respondents suggested that KAM can further venture into segmentation through identifying service needs through surveys, engaging more SMEs by giving them subsidised rates and introducing incentives like quantity discounts. The factors that would influence KAM to develop new services for its current market were competition, market expansion, cost of doing business, members' needs, challenges facing the businesses KAM represents and resource availability while the main challenges cited in doing this were competition from other organizations offering similar services, DIT registration for KAM as a trainer, inadequate capacity at KAM and slow response by companies to the new services.

On diversification where respondents were required to talk about KAM's attempts to develop new services for new markets, the study found that in the case of KAM, the new services suggested by the respondents that are entirely different to the current ones include: developing a one stop shop for business information, local and international tendering, online buying and selling service like eBay, SME specific services (product branding, marketing strategies training and local technology transfer in partnership to organizations like KIRDI), tailor made in house training for individual companies, full commercialization of KAM publications, establishing manufacturing academy and consultancy. The challenges mentioned in this section include: ability to identify relevant services for the target market, DIT registration for KAM as a trainer, finances, bureaucracy, willingness of participant to pay stipulated fees and limited capacity. 20% of the respondents did not answer this section.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the findings

The environment in which BMOs exist was described by most respondents as dynamic, challenging and unpredictable is as a result of both macroeconomic factors such as political and economic stability of the country and competition, that BMOs are faced with a scramble for members thus the importance of each BMO to be sensitive to the needs of its members and add value to them otherwise lose their members to others. Customer focused service delivery, financial stability and competent staff as well as sound leadership were ranked as the major factors that influence the growth and survival of the BMOs. The study also revealed that KAM has responded to these factors at the macro level by advocating to the government for a favourable business environment and collaborating with likeminded BMOs. KAM has also taken measures at the micro level by putting its affairs in order through development of its financial base through offering relevant fee based firm level interventions and expanding its membership base, as well as establishing a strong and competent workforce; as a result KAM has grown in stature. According to this study, KAM mainly focuses on the local manufacturing sector as its current target market offering an assortment of services ranging from policy related services as well as firm level services; to sell more of these services, the study suggests introduction of new relevant services that address the current needs of business. On market development, the study shows that there has been an attempt to reach out to other market segments namely, other manufacturing companies which are not yet members of KAM, hotels, hospitals and schools and points out the consultancy market segment as a new market that KAM can capture with its services e.g. energy efficiency services and work permit processing. The study further reveals that direct marketing and personalised selling would be a major tool to use to attract these new market segments to its current services, citing lack of capacity as a major impediment in this endeavour. On product development, the study also reveals that KAM already segments its services to target different member categories and also proposes ways for further segmentation bearing in mind the factors and challenges that would be involved. According to the study diversification is not a major point of focus for KAM at the moment.

5.2 Conclusion

Whereas the study shows that KAM has made serious attempts to apply the Ansoff growth strategy in its service offering, namely through market penetration, market development and product diversification, there is little that KAM can do in terms of diversification. The study also confirms that KAM's current market largely remains to be manufacturers and the Association already has an array of services offered to its current market. The study further reveals that KAM services have successfully penetrated new sectors and that there is still room for improvement for KAM within its current market and beyond first with the services it already has, thereafter with new services. From this study, KAM's main opportunity lies in market development.

5.3 Limitations of the study

This study focused on Ansoff's model which is only one of many growth strategies in the field of management. There are many more of these strategies that are applied by other organizations including BMOs. The study was also carried out through interviews with the staff of KAM only and did not involve the members of the association, the government and other BMOs who may have had a different point of view on the study.

5.3 Recommendations for further study

Other BMOs may also be taking up and applying different growth strategies, it is therefore recommended that a study be carried out the application of other growth strategies other than the Ansoff's model in BMOs in Kenya.

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INTERVIEW GUIDE

PART 1

Functional title: ________________________________

Number of years worked at KAM: ____________________

Role in the formulation and implementation of Strategy at KAM:

PART B:

1. How would you describe the environment in which Business Membership Organizations (BMOs) exist in Kenya?

2. What are the factors that influence the growth and survival of BMOs in this day and age?

3. How has KAM as a BMO responded to these factors?

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4. In the years that you have been at KAM would you say the Association has grown, stagnated or declined? ____________________________ In what ways?____

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5. What are KAM's main sources of income? _____________ Are these sustainable means? YES/NO

Why?____

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6. Market Penetration: selling more of existing services into existing markets

   i. What is KAM's current market segment?

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   ii. What services does KAM offer its current market segment

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   iii. What is KAM doing to sell more of its existing services to its current market segment?

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   ____

iv. Any challenges?

v. What else could be done to sell more?

7. Market Development: selling existing services into new markets
   i. Are KAM services extended to new customer segments? YES/NO___ If yes, which services and to which new market segments?

   ii. What new market segments can KAM venture in?

   iii. How else can KAM target new customer segments with its existing services?

   iv. Any challenges for KAM?

8. Product development: where a business aims to introduce new products/services into existing markets
   i. Does KAM segment its services to target different member categories? YES/NO ______________ If yes, how has it been done?

If no, in your opinion is it necessary and why?

How do you suggest KAM goes about it?

ii. What factors influence KAM to develop new services for its current target market?

iii. Any challenges for KAM?

9. Diversification: where a business aims to develop new products/services for new markets

   i. What services can KAM develop that are entirely different from the current services it offers

   ii. Any challenges for KAM?

THANK YOU FOR YOUR TIME

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DATE......30 AUGUST 2011......

TO WHOM IT MAY CONCERN

The bearer of this letter......LILIAN ANYANGO ODHEK......

Registration No......D61/72817/2009......

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

JUSTINE MAGUTU
ASSISTANT REGISTRAR
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