

**RESPONSES OF SAMEER AFRICA LIMITED TO CHANGES IN THE EXTERNAL
ENVIRONMENT**

BY

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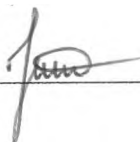
**A MANAGEMENT RESEARCH PROPOSAL SUBMITTED IN PARTIAL
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DECLARATION

a) Declaration by the student

I declare that this is my original work and has not been presented for a degree in any other university.

Sign:  _____

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b) Declaration by the University supervisor.

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

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DEDICATION

I dedicate this project to my family and friends who stood by me during the whole M.B.A programme.

ACKNOWLEDGEMENT

My utmost thanksgiving goes to the Almighty God who has given me life, strength and encouragement to see me through the entire period of the M.B.A.

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ABSTRACT

The external environment has undergone various changes that have tremendously affected the operations of many businesses. Sameer Africa Limited is one such company that has gone through various changes due to the turbulent nature of the external environment. Many of these changes came in after the opening of the Kenyan market to other international players. The study sought to determine how SAL had responded to these environmental challenges.

The study was carried out through a case study of Sameer Africa Limited. Personal interviews using an interview guide were conducted on the CEO and the head of the Sales and Export department who were the representatives of SAL. Content analysis technique was used to analyze the data.

The study revealed that there are several environmental changes that have affected the operations of the business. These include globalization, liberalization, competition mainly from the Far East countries, changing technologies and government regulations. The biggest challenge has been the increasing competition and the changing technology. The company has employed a number of strategies to counter the effects of these environmental changes and they have been successful. A few recommendations have been suggested to enable the firm maintain and sustain a competitive advantage.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

1.1.1 Environment and the Organization

The environment comprises of systems that interrelate with each other. A system is a set of components that seek in the accomplishment of some objective. The components relate and interact within a boundary. A closed system does not depend on the external environment for its survival. It can be sealed off from the outside environment. An open system on the other hand, depends on its external environment for survival. It continuously consumes resources from the environment and releases resources back to the environment. Organizations are open systems, that is, they are environmental-dependent. They use inputs from the environment and transform them into outputs (Ansoff and McDonnell, 1990, Pearce and Robinson, 1999, Thompson and Strickland, 1998, Johnson and Scholes, 1999).

The success of firms is dependant on their ability to recognize and proactively respond to internal and external environmental challenges. The environment has increasingly become turbulent and very dynamic constantly changing, making it imperative for organizations to adapt their activities in order to survive. Therefore for organizations to achieve their goals and objectives, they have to constantly adjust to their environment (Pearce and Robinson, 1997). A mismatch between the environment and the organization brought about by failure to respond to changes in the environment creates a strategic problem (Aosa, 1992).

Survival of organizations is therefore crucial and hence the need to justify its continuous existence in the environment. An organization must therefore adjust to the environmental shocks caused by its turbulent nature so as to achieve its goals and objectives (Pearce and Robinson, 1997). The success of the organization will depend on how well it positions itself in the environment to tackle the challenges within the environment.

To enable organizations' have maximum goal achievement, they will have to learn to adapt and re-orient themselves to the changing environment. This process has to be deliberate and

coordinated leading to gradual or radical systematic alignments between the environment and a firm's strategic orientation that results in improvement in performance and effectiveness. Simultaneous assessment of the external environment and company profile enables a firm to identify a range of possibly attractive interactive opportunities. This process results in the selection of a strategic choice which is meant to provide the combination of long-term objectives and grand strategies that will optimally position the firm in the external environment to achieve the company mission.

Organizations have adapted different strategies over time to help them cope with the threat posed by the strategic problem. The purpose of these strategies is to impact on the organizations performance relative to its competitors.

A strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. According to Johnson and Scholes (2002) strategy is the direction and scope of an organization over the long term in which it achieves an advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations. It is also a pattern of actions and resource allocations designed to achieve the goals of the organization. It matches the skills and resources of the organization to the opportunities found in the external environment (Bateman & Zeithaml, 1990; Jauch & Gloeck, 1998).

To respond to these environmental challenges, organizations have adopted different strategies to counter the drastic effects of liberalization. There are two types of responses to environmental changes; strategic and operational responses. Strategic responses are those that require the organization to change their strategy to match the environment and also to transform or redesign their internal capability to match its strategy. These are focused on the effectiveness. Operational responses on the other hand are short term and involve general organizational resources and are relatively easy to implement and reverse. They are more focused on efficiency.

1.1.2 Types of Responses

According to Pearce and Robinson (2002), an organization must make a strategic choice. This is meant to provide a combination of long term objectives and grand strategies that will optimally position the firm in the external environment to achieve the organizations mission. Hence for an organization to be effective and successful it should respond appropriately to the changes that occur in its respective environments. Responses are actions taken by a firm to cope with shifts in the environment. They are actions and decisions that result in the formulation and implementation of plans designed to achieve a firms objectives. There are two types of responses; strategic and operational. The type and timing of the response is very critical to an organization in ensuring that the impact of a threat does not adversely affect the firm or make it miss an opportunity. The following are some of the responses that firms adopt to counter the effects of environmental challenges:

Generic strategies: - According to Porter (1998), a firm that is optimally positioned can generate superior returns. A firm positions itself by leveraging its strengths. A firm's management can choose to apply their strengths in three broad or narrow scopes which will generate a competitive advantage. These are cost leadership strategy, differentiation strategy and focus strategy.

Through *Cost leadership* a firm adopts operational functions that will be efficient and lead to a low cost base. When a firm designs, produces and markets a product more efficiently than competitors such firm has implemented a cost leadership strategy. The firm attempts to maintain a low cost base by controlling production costs through rehabilitation of plants and machinery and installation of new plants and machinery, increasing their capacity utilization, controlling material supply or product distribution and also minimizing costs such as advertising, marketing and reduced sales force.

By adopting the *differentiation strategy*, a firm creates products or services that are perceived throughout its industry as unique. Differentiation is associated with unique designs, brand image, technology, features, dealers, network or customers service. This strategy is viable for earning above average earnings. A firm will normally charge a premium price for its products.

The *focus strategy* also known as a niche strategy enables a firm to identify or select a few target markets. According to Porter (1998), the firm focuses its marketing efforts on one or two narrow market segments and tailors its marketing mix to these specialized markets to better meet the needs of the targeted markets.

A firm adopts diversification as a strategy to increase the variety of business, service, or product types within itself. Diversification involves taking the organization away from its current markets of products or competences. A firm can either pursue related or unrelated diversification (Johnson and Scholes, 2002). In related diversification, a firm develops beyond the current products and markets but still within the industry in which it operates. This includes vertical and horizontal integration. In unrelated diversification, the firm develops beyond the current industry or value system. It may involve diversifying into new markets and new products by exploiting the current competences, creation of new markets and development of new competences.

In vertical integration a firm acquires firms that supply it with inputs (such as raw materials) or are customers for its outputs (Pearce and Robinson, 1997). Vertical integration can either be in the form of backward integration where a firm acquires ownership of one's supply chain in an attempt to reducing supplier power or forward integration which involves the acquisition of the firm nearer to the ultimate consumer.

Organizations enter into strategic alliances to attain such benefits as sharing of costs, risks and profits. Strategic alliances are where two or more organizations share resources and activities to pursue a strategy. Due to the increasingly complex environments organizations are operating in, strategic alliances are formed either to exploit current resources or explore new possibilities (Pearce and Robinson, 1997). Through strategic alliances, organizations share the risks of specialized investments, reduce internal complexity and administrative costs, and achieve greater adaptability and responsiveness to the environment (Daboub, 2002).

Outsourcing involves a firm subcontracting another firm or person to do a particular function. A firm will subcontract those functions that are non-core, non-revenue producing. It enables a firm concentrate or focus on its core competences and at the same time enjoy high quality services at a cost-effective prices.

Sameer Africa Limited is one such organization that has recognized the need to respond proactively to the environmental changes in order to succeed in an increasingly competitive industry.

Over the last decade, several changes have taken place in the world economies. Globalization has become the new wave forcing organizations to seek new ways to obtain strategic advantages and sustain competitiveness. Globalization is defined as the widespread procedures with ownership supervision generally originating through a parent company housed in another country (Ball and McCulloch, 1993). These winds of change are currently sweeping through Africa like a bush fire. Kenya too has not been left out in this new wave. In 1992, the Kenyan government prepared ground for globalization by initiating liberalization and privatization policies. This reduction in trade barriers created new opportunities for manufacturers but also exposed the state to more intensive competition as emerging economies began to trade more actively. Where initially emphasize lay on large scale, long run production the focus is slowly shifting to high quality products/services, innovation and the ability to respond rapidly to changing international market conditions. In addition, pressures are mounting for businesses to be more responsible and accountable to their stakeholders, workforce, suppliers, communities, government and the general public.

The changes in the local as well as the international markets have had a major impact on Sameer Africa Limited (SAL) formerly Firestone East Africa (1969) Limited, the only tyre manufacturing firm in Kenya. Such changes include the liberalization of the local market, rising costs of production due to rising costs of raw materials, increasing fuel prices, falling Gross Domestic Product (GDP), rising costs of electricity, political instability, the emergence of parallel imports, that is, products that are available at a cheaper price in lower fixed costs countries such as Korea, China, India and America among others. As a result of these changes in the operating environment, costs have continuously risen translating into higher prices in tyres drastically reducing demand for the tyres thus resulting to low revenues (Sameer Africa Newsletter, 2008).

This study looks into the tyre industry specifically Sameer Africa Limited (SAL), the only tyre manufacturing firm in Kenya. The study seeks to identify how SAL has responded to the environmental changes that have led to increased competition.

1.2 History and Growth of the Tyre industry in Kenya

The tyre industry in Kenya came to be in the late 60's and was initiated by the Americans who set up the first tyre manufacturing company in 1969 which was then known as Firestone East Africa(1969) Limited (now known as Sameer Africa Limited). Since then there has been a tremendous growth in the industry in the last two decades. Apart from tyre manufacturing growing from 600tyres a day to 2400 tyres a day, there is a marked increase in imported tyres (Sameer Africa Newsletter, 2005).

Since the liberalization of the Kenyan market, which led to deregulation and removal of government controls, there has been a sharp rise in the importation of cheap tyres. This has adversely affected the demand for locally manufactured tyres as people opt for cheaper tyres. The tyre industry is comprised of four major players; Sameer Africa Limited, Auto Express formerly Nyanza Petroleum Distributors, Treadsetters/Goodyear and Kingsway Tyres. Others though small in size include Kajulu holdings, Double Coin, Transallied, and Tyreworld. There are over 30 tyre brands in Kenya today and the biggest chunk is dominated by the Chinese and Indian tyres. This takes over 40% of the market share while those produced locally take about 35% (Shoreward E.A., 2007).

Though most developed countries have completely shifted from the bias ply tyres to the radial ply steel belted tyres, there is still a significant demand for the bias ply tyres in Kenyan. This is mostly attributed to our poor road conditions. Nevertheless, there is a marked improvement in moving towards the radial ply steel belted and a study conducted showed Kenya is now dominated by the radial ply steel belted tyres (Shoreward E.A., 2007).

1.2.1 About Sameer Africa Limited

Sameer Africa Limited under the name Firestone East Africa (1969) Limited was incorporated in Kenya on 3rd November 1969 as a tyre manufacturing company under a joint venture between Firestone Tyre and Rubber Company and the Government of Kenya. The company formally changed its name from Firestone East Africa (1969) Limited to Sameer Africa Limited on 30th March 2005 and the new corporate identity was unveiled two months later (www.sameer-group.co.ke).

In 1985, Firestone Tyre and Rubber Company sold a 40.2% of its shares in Firestone East Africa (1969) Limited to Sameer Investments Limited, a Kenyan company. In 1988 when Bridgestone Corporation purchased Firestone Tyre and Rubber Company worldwide then to form Bridgestone/ Firestone Corporation (Japan), Sameer Investments retained its shareholding in the local outfit. In 1995 the company went public by floating 20.2% of its shares to the public. The resulting shareholding in the company was as follows; Sameer Investment Ltd – 64.9%, Bridgestone Corporation – 14.9% and the Public – 20.2 % (Lewa and Makaya, 2008)

The corporate identity changed to Sameer Africa Limited in April 2005 after a successful re-negotiation of the technical and management contract with Bridgestone Corporation (Japan). This change created an independent tyre producer based in Kenya whose aim is to supply the East African and the COMESA markets. The current focus is on growing the export business to take advantage of the favorable tariffs within the region (Lewa and Makaya, 2008).

SAL has a production capacity of about 2500 tyres a day. It has over 800 direct employees and over 10,000 indirect employees. A survey conducted in 2007 by Shoreward East Africa, indicates that SAL's market share stands at 50% in the total tyre market in Kenya. The production capacity is already being increased further to 4,000 tyres per day over the next one year. This production, which has been technologically backed by Bridgestone/ Firestone Corporation (Japan) over the years, has enabled Kenyan local engineers acquire cutting-edge comprehensive tyre making skills and techniques of global repute. With this technical capability, SAL is able to produce a comprehensive range of tyres for our local conditions ranging from

passenger car tyres, light and medium commercial vehicle tyres, truck and bus tyres, agricultural as well as off-the-road tyres, under its own brand name Yana Tyres (www.sameer-group.co.ke).

SAL has diversified into the export market with export sales growing by 90% over the last three years. This has been achieved through sales to Rwanda, Burundi, Malawi, Madagascar, Zambia, Mozambique and Somalia. Currently, SAL is looking into expanding to Egypt, Sudan and South Africa.

The full liberalization of the economy in 1994, which led to deregulation, and removal of government control in many industries, brought about a number of changes in the tyre market. There was an increase in the demand and subsequent importation of cheap second hand vehicles, which influenced the demand for firestone tyres. There was a marked decrease in demand for firestone tyres by organizations that assembled new vehicles namely, original equipment tyre segment. This was as a result of declined demand in new assembled vehicles. However, there was a marked increase in demand for firestone tyres in the replacement market, that is, the cheap imported second hand vehicles.

1.3 Problem Statement

The full effects of liberalization of the tyre industry in Kenya have been severely felt by SAL formerly FSEA (1969). Entry of new competition in the form of imported tyres and independent traders has greatly impacted on SAL's operating costs. This impact has been felt in the form of declining sales volumes which translates to declining profits. This has obviously posed a serious challenge to the survival of SAL. Therefore the question is how should SAL respond in the face of such adverse competition onslaught from imported tyres?

Studies done by other researchers on SAL have focused on creating and sustaining competitive advantage in Firestone East Africa (1969) Ltd (Kirima, 2000) by maintaining and sustaining tyre dealers who were previously exclusive to Firestone East Africa (1969) Ltd and on strategies for managing organizational change and development (John, 2004). No study has been conducted on responses of Sameer Africa Limited to changes in the external environment.

Some of the previous studies conducted in this context are:-

Njau (2000) carried out a study on strategic responses used by EABL and he concluded that a change in the competitive position would require the company to decide on strategies to adopt.

Muturi (2003) studied the strategic response of Christian Churches in Kenya to changes in the external environment. He noted that changes in the external environment have affected the churches both positively and negatively. The churches have responded through the introduction of income generating activities, strategic planning, social projects, training and development of staff and the use of information and communication technology.

Bett (1995) conducted a study in the dairy industry in Kenya and found that due to the on going economic reforms in the country, firms in this industry made certain adjustments in their marketing mix components of product, price, promotion and place so as to adapt to changes and remain competitive in the liberalized industry.

Muse (2006) studied the responses to environmental challenges by Agricultural Finance Corporation of Kenya (AFC). He observed that the major challenges were poor governance, frequent adverse weather conditions, declined trade in agricultural produce and effects of liberalization. AFC undertook a major strategic change through the adoption of a new business model. It responded by going to the money market to raise funds for core lending programs, used market penetration strategies, development of new products and restructuring. On operations it reviewed its loan administration policies, opened new branches and reorganization of the internal structures.

Lalampaa (2006) conducted a study on responses by the Higher Education Loans Board (HELB) to the environmental challenges of financing higher education in Kenya. This research revealed that political, economic, socio-cultural, technological factors of the external environment as well as the Board's internal environment exercised some influence in determining the strategic direction of the board. *The response to the board's challenges have been reactive and has thus resulted to the continuous reliance on the government for grants in order to sustain its objectives of assisting needy students in accessing higher education in Kenya.*

Kandie (2001) carried out a study on the strategic responses by Telkom Kenya Ltd (TKL) in a competitive environment. His main objective was to identifying challenges affecting TKL in a competitive environment and to establish strategic responses TKL is using to cope with the competitive environment. The findings were in view of the analysis; it is evident that although the onset of liberalization has forced TKL to respond to the challenges emanating from its new environment, financial constraints and lack of managerial empowerment has considerably limited the company.

1.3.1 Objective of the study

To establish the responses adopted by Sameer Africa Limited to counter the challenges of a changing external environment.

1.3.2 Importance of the study

This study is intended to benefit other firms in the industry in helping them to understand and react proactively to the changes in the environment. Key managers in organizations will use the information from this study in making on time decisions to help cope with the dynamic changes in the environment. For scholars, it will give full proof that exercising strategic management in firms is essential for the continued existence of organizations. The study will also be useful to researchers in providing an in-depth understanding of strategic management. Finally it will give an indication of the efforts SAL is putting in ensuring the continuation and success of the firm and hence strengthen the shareholders and general public's confidence in SAL.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In the present global business environment firms must develop a competitive strategy that determines the position of the firm with respect to other firms in the industry. A structural analysis, which is fundamental in developing a competitive strategy, relates the firm to its environment. The firm must determine what its critical strengths and weaknesses are, and in what areas a change in strategy will yield the greatest benefit. This section will review literature on the relationship between the environment and the organization, the concept of strategy, the Ansoff's Business Unit strategy and the types of responses adopted by firms. In so doing, the literature will establish the relationship between the environment and the organization, the challenges the environment presents to an organization and how it makes strategic choices in response to the challenges.

2.2 Environment and the Organization

For survival an organization must maintain a strategy fit with both the external and internal environments. An organization's external environment includes economic forces, socio-cultural, demographic, political and technological, while its internal environment includes the organization systems, policies, resource capabilities and corporate culture (Pearce and Robinson, 1991). The external environment and the organization are connected by an input-throughput-output process where inputs are received from the environment and released back into the same environment after being processed by the organization (Porter, 1985).

Andrews (1975), Chandler (1962) and Porter (1998) point out that firms are environment dependent and changes in the environment shape the opportunities and challenges facing the organization. Therefore managers must shift their environment scanning from the immediate operating environment to the industry as a whole (Aquiler, 1967).

Environmental turbulence is attributed to increasing amount of change and the drastic nature of many of these changes especially those related to technology that make it increasingly difficult

to identify causes or predict results of competitive initiatives with reasonable certainty(Bower and Christensen,1995). Hoskisson et al (1997) in Ngunjiri (2005), indicates that the external environment plays a major role in the growth and profitability of an organization. Companies are operating in a global rather than a domestic market. Technological advances and the explosion of information gathering and processing capabilities demand more timely and effective competitive actions and responses.

In Ansoff's (1990) strategic success hypothesis, the firms performance potential is optimum when the following three conditions are met; aggressiveness of the firm's strategy behavior matches the turbulence of its environment, responsiveness of the firm's capability matches the aggressiveness of its strategy and the components of the firm capability must be supportive of one another.

Studies conducted by Hall (1990) on large manufacturing corporations in America showed how they were affected when the external environment became turbulent. He observed that the 'success formulas' which brought prosperity when the environment was stable were no longer working and were being replaced with strategic choices that were becoming essential to survive a hostile environment.

2.3 Concept of Strategy

Organizations must formulate strategies, to enable them achieve their long term goals and objectives. A strategy is therefore the direction and scope of an organization over the long term, which achieves advantages for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations (Johnson and Scholes, 2002; Ansoff and McDonnell, 1990).

Bateman and Zeithaml (1993) assert that strategy is a pattern of actions and resource allocations designed to achieve the goals of the organization. The strategy that an organization implements is an attempt to match the skills and resources of the organization to the opportunities found in the external environment. The decisions and actions taken will lead to the development of an effective strategy which will help to achieve organizational objectives (Jauch and Gloeck, 1998)

Hitt et al (1997) define a strategy as an integrated and coordinated set of commitments and action, designed to exploit core competences and gain a competitive advantage. By strategy, therefore, managers mean their large-scale, future oriented plans for interacting with the competitive environment to optimize achievement of organization objectives (Pearce and Robinson 2002)

Quinn (1980) describes strategy as a plan and pattern that integrates an organization's major goal's, policies or patterns and helps marshal and allocate resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by the intelligent opponents. Mintzberg (1987) agrees that strategy is a plan, ploy, pattern, position and perspective. It's a plan that can be defined and followed. As a ploy, it can be seen as a move in competitive advantage game; as a pattern of consistent behavior logically thought out and as a perspective; it's a unique way of perceiving the world; as a position it a means of locating an organization in its environment.

A competitive strategy consists of all the moves and approaches a firm has taken and is taking to attract buyers, withstand competitive pressures and improve its market position (Thompson and Strickland, 1993). Strategy sets out the mission of the company. A mission is a general expression of the overall purpose of the organization, which, ideally, is in line with the values and expectations of major stakeholders and concerned with the scope and boundaries of the organization (Johnson and Scholes, 2003).

Strategy according to Pearce and Robinson (1998) is the link between the organization and its environment. It helps the organization cope with the changes in the environment. According to Flavel and Williams (1996), a business enterprise will justify its existence, and survive the long term by taking the following actions: -

- (i) Identification of a market needs, either latent or currently existing,
- (ii) Creation of customers and thus, demand for the identical product or service, within a sustainable market niche of sufficient magnitude to provide an adequate return to the business,
- (iii) Fulfilling the identified need to the complete satisfaction of its customers,
- (iv) Monitoring and anticipating changes to the customers' needs and wants,

- (v) Monitoring and anticipating changes with the market environment;
- (vi) Formulating strategies and implementing, evaluating actions, to maintain an ongoing relevance of the enterprise to its identified market.

Strategic planning enables the achievement of these important survival factors in a disciplined, structured and coordinated manner. Strategy reflects the choice of the key services that the organization will perform and the primary basis for distinctiveness in creating and delivering such services (Newman et al, 1989). Corporate values dictate strategy. They influence the managers choice of mission, goals and objectives of the firm. They guide managers in deciding what to do, and form the basis of distinctiveness in creating and delivering services, and their coordination. Corporate values provide the basis for strategy formulation; which are the primary tool managers use to guide companies in their turbulent existence (Banerjee, 1998: McCarthy et al, 1996). Even if an organization has no outstanding competencies and capabilities, managers still must tailor strategy to fit the organization's particular resources and capabilities (Pierce and Robinson, 2002).

A host of external factors influence the firm's choice of direction and action and ultimately its organizational structure and internal processes. It can be divided into two subsets: The internal environment - this comprises of factors such as the organizations own competitive capabilities, mainly resources both tangible and intangible that affects the firm's ability to meet its objectives. This environment is within the controls of the organization.

2.4 Ansoffs Business Unit Strategy Model

Strategic choices are decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objective (Pearce and Robinson, 1997). Ansoffs Matrix is a model that helps firms to identify there future strategic direction and is used to determine growth opportunities. The Ansoff Growth Matrix was developed by Igor H Ansoff in 1957.

Figure: 1. Ansoff's Product-Market Growth Matrix

PRODUCTS

		PRODUCTS	
		PRESENT	NEW
MARKETS	PRESENT	MARKET PENETRATION	PRODUCT DEVELOPMENT
	NEW	MARKET DEVELOPMENT	DIVERSIFICATION

Source: Ansoff (1957): “Strategies for Diversification” Harvard Business Preview, Vol 35 Issue 5, Sept – Oct pp 113-124

The matrix itemizes four basic ways in which a firm can develop its portfolio of products and markets but importantly also emphasizes the degree of risk of each approach. Ansoff's strategy matrix shows that growth strategies can help firms identify their future strategic direction enabling them in planning for growth, assist them in formulating a strategy and knowing which markets and respective products to serve in the market for success growth. The four strategies include market penetration, market development, product development and diversification.

Market Penetration Strategy focuses on existing products and existing markets. According to Lancaster (1988) in Wanyande (2006) market penetration strategy involves firms expanding their sales based on existing products in existing markets. Market penetration seeks to achieve four main objectives: maintain or increase the market share of current products; secure dominance of growth markets; restructure a mature market by driving out competitors and increase usage by existing customers (Mecha, 2007). This strategy is the easiest to pursue as the firm is likely to have good information on competitors and customers needs and is unlikely therefore that this strategy requires new investments. The rivalry is also perceived to be low. Market penetration

involves the adoption of a superior marketing mix. The use of price, place, promotion and product mix enables the firm adapt to the opportunities and limitations imposed by the environment.

Market development strategy involves introducing present products or services into new geographic area. Firms try to increase sales by selling the present products in new markets. New markets could be new subsectors within the current market – it helps to stay reasonably close to the markets the organization is familiar with and which are familiar with the organization or new distribution channels or new geographic markets.

Finding new markets does not guarantee long term or short term profitability but economies of scale in producing will contribute to profitability. A firm selling industrial products or services tries to find new business opportunities through various marketing mix activities which can serve to limit or enhance the chances for success. These activities include training existing/ new sales staff, better use of capacity, hiring additional sales staff, selling present offering to new markets with present distribution channels, adding new outlets, channels or offices, changing trade promotion spending, and changing advertising spending (Mecha, 2007).

According to Werner, McDermott and Rotz (2004) in Mecha (2007) they observed that market development strategy works well in the early phases of a company's growth. The trouble begins, they observed, when the firm becomes so big that its returns on incremental investment deteriorates and its earnings plateau and the management fails to develop a new way to run the firm. To avoid this, firms must first develop an accurate understanding of the profitability of the different products they offer and know how to position those products to take advantage of an accurate picture of which customer segments are profitable and an improved ability to position their products and stress to reach those customers.

Milady's (2005) research on the extent to which Kenya Airways (KQ) has pursued the market development strategy in relation to other growth strategies revealed that this is the main growth strategy that has seen the airline expand its operations in Africa, Europe and the Far East.

Product development strategy is a crucial business strategy for firms to stay competitive. It involves the firm increasing its sales by marketing new products to the existing markets or by improving or modifying the present products and services. The firm develops potential new products based on customers wants and needs through new product technologies and develops different quality levels. Sivadas and Dwyer (2002) in Mecha (2007), mention that product development is a key source of competition advantage for individual firms and it is also becoming a competitive strategy for business partnerships. This strategy may be appropriate if the firm's strengths are related to its specific customer rather than to the specific product itself. This way it can leverage its strength by developing a new product targeted to its existing customer.

Product development may result in completely new products or in cost reduction on existing products. Organization are increasingly concentrating on responsiveness and flexibility through product innovation to serve current and emerging market needs. Example of the success in product development strategy is seen in BIC which has exploited synergies in distributing dispensable cigarette lighters and safety razors through the same outlets that it had developed to sell its highly successful dispensable ball point pens (Wanyande, 2006)

Diversification Strategy takes an organization away from its current market or product or competencies. McCathy (2002) in Wanyande (2006) describes diversification as a strategy that involves moving into totally different lines of business – perhaps to entirely unfamiliar products, markets or even levels in the production marketing system.

Diversification as a strategy that may present the most challenging opportunities as it involves both new productions and new markets. Whether a firm pursues this strategy will depend on the situation of the market, the business cash reserves and the skills of the staff to take on new product lines. Diversification has been viewed as an essential vehicle for growth and improved performance and is regarded as a way for firms to reap the benefits of scale and scope required to achieve rapid growth rates. Diversification also becomes an attractive strategy when a company runs out of profitable growth opportunities in its present business (Thompson and Strickland, 1991).

Diversification can be applied in two forms: related diversification and unrelated diversification. In related diversification occurs when products and/or markets share some degree of common semblance with the existing ones. In this case, the closeness of products offered could reduce the risk of diversification as this strategy is on the entails uncertainty. Related diversification on the other hand means growth into similar industries, a forward or backward in a business existing supply chain.

2.5 Organizational Responses to Environmental Challenges

Organizations are environment dependent. No organization can exist without the environment. This means that firms depend on the environment for their survival and therefore they must scan their environment in an effort to identify trends and conditions that could affect the industry and adapt to them. Simultaneous assessment of the external environment and company profile enables a firm to identify a range of possibly attractive interactive opportunities. This process results in the selection of a strategic choice (Pearce and Robinson, 1997).

Hofer and Schendel (1978) observed that for organizations to be effective and hence successful, they should respond appropriately to the changes that occur in their respective environment. Consequently, they need strategies to focus on their customers and deal with the emerging environmental challenges.

Organizations must develop early warning systems to help them respond on time. Organizations that do not respond or respond inappropriately will not be able to survive the competition or turbulent environment and hence will perish. Therefore the nature of response is critical in ensuring that the impact of a threat does not adversely affect the firm. Responses of any organization can be both strategic and operational. Operational responses are functional and are concerned with achieving specific tasks efficiently with known resources. They are short term in orientation relatively easy to implement and reverse, for example, a price increase.

Strategic responses, on the other hand, are difficult to implement and reverse and are focused on effectiveness. They are concerned with how to plan for the use of specific and distinctive organizational resources to pursue long term objectives. Strategic responses require

organizations to change their strategy to match the environment and also to transform or redesign their internal capabilities to match its strategy. They ensure an organization is ready for the challenge and has planned on how to tackle the obstacle. Porter (1998) notes strategic response involves change in a firm's strategic behavior to assure success in transforming the future environment. It also often involves a change in the competitive position a firm occupies in the competitive industry.

2.5.1 Strategic Responses

Ansoff and McDonnell (1990) observed that strategic responses involve changes to the organizations strategic behavior. Such responses may take many forms depending on the firm's capability and the environment in which it operates. Some of these strategic responses may include improving current markets and products, positioning the firm optimally, diversification, strategic alliances and turnaround.

Market and Product Development

In market development, the firm markets its current products in new areas. Firms market the present products, often with only cosmetic modifications, to segments where similar critical success factors exist by adding channels of distribution or by changing the content of advertising or promotion.

Product development involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. Firms will adopt this strategy to prolong the life cycle of current products or to take advantage of a favourite reputation or brand name. Product development strategy is mainly based on the penetration of existing markets by incorporating product modifications into existing items or by developing new products with a clear connection to the existing product line. Product development is essential especially where customers become more experienced with judging value for money, for example, through repeat purchasing or because new choices become available in the market.

Generic Strategies

A firm's profitability is not only determined by the attractiveness of the industry in which it operates but also its positioning in the industry. A firm positions itself by leveraging its strengths. According to Porter (1998) these strengths can either be applied in a broad or narrow scope resulting to the three generic competitive strategies: cost leadership, differentiation and focus. *Cost leadership* aims at being efficient in production and operations to reduce costs by having controls to this effect. Firm's can achieve this by rehabilitation of old plants and machinery or by sourcing inputs from cheaper suppliers or by putting up state of the art equipment which reduces delays and minimizes wastage and cost of errors.

Differentiation on the other hand, involves a firm targeting different market segments and catering for each individually to gain maximum value. This can be achieved by creating a product or service that is considered unique industry-wide. For instance, product uniqueness can be achieved through design and creation of innovative features. A firm then carries out an aggressive marketing campaign to emphasize the product uniqueness so as to build a strong brand loyalty to defend itself against competitor products.

Focus strategy involves concentrating on one particular market niche to position oneself in the market. Hill and Jones (2004), observe that this strategy concentrates on serving a particular market niche, which can be defined geographically or through the type of customer or by segment of the product line. In order to gain and sustain a competitive edge, firms should narrow their operations and target specific markets. In a study conducted by Kamau, S (2007), she identified focus as a strategy adopted by Kenya Re when they set up businesses in foreign lands and using the locals to deal with the competition in their native homes.

Diversification

Glueck and Juach (1988) define diversification as changes in products, markets or functions that can be done internally or externally, horizontally or vertically; and it can involve related and unrelated changes. In diversification, a firm shifts away from its current markets or products or competences and decides to make new products for new markets. A firm therefore can either pursue related or unrelated diversification.

Related diversification is development beyond the current products and markets but still within the industry in which a firm operates (Johnson and Scholes, 1999). It takes the form of vertical or horizontal integration. Vertical integration is when a firm acquires businesses that supply it with inputs such as raw materials or are customers for its outputs such as warehouses for finished products. Horizontal integration is the development into activities that are competitive with or complementary to a company's present product.

Unrelated diversification is development beyond the current value systems or industry (Johnson and Scholes, 1999). Firms will diversify into new markets and new products by exploring the current competencies, creation of genuinely new markets and development of new competences for new market opportunities.

Turnaround Strategy

The turnaround strategies are critical to the survival of many firms. They involve decisions made by management in a bid to ensure a firm survives and eventually recover if concerted efforts are made over a few years to fortify its distinctive competences. The decision is made when a firm finds itself with declining profits as a result of economic recessions, production inefficiencies and innovative breakthroughs by competitors. The efforts include cost reduction through downsizing, leasing, dropping off some products from production and discontinuing low-margin customers; and asset reduction through sale of land, buildings and equipments not essential to the running of the firm (Pearce and Robinson, 1997). Turnaround responses typically include two stages of strategic activities; retrenchment which consists of cost cutting and asset reducing activities, and recovery response through creative new entrepreneurial strategies and efficiency strategies.

Collaborative strategies

Collaborative strategies are agreements entered with other players in the industry either local or foreign. They are linkages between companies to jointly pursue common goals. Organizations cannot always cope with increasingly complex environments with the use of internal resources and competences alone. Agreements are formed to either exploit current resources or explore new possibilities. Such agreements take the form of strategic alliances, mergers and acquisitions,

licensing, franchising. Collaborative strategies reduce cost of differentiation and enhance competitive advantage.

2.5.2 Operational Responses

An operational response is a tactical action taken to fine-tune a strategy. It involves fewer and more general organizational resources and is relatively easy to implement and reverse. Operational strategies are directed at improving the effectiveness of basic operations within the company, such as, marketing, production, research and development and human resource.

Marketing Strategies

A marketing strategy is a process that can allow an organization to concentrate on its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage. This refers to the position a company takes with regard to pricing, promotion, advertising, product design and distribution. The marketing strategy that a company adopts can have a major impact on efficiency and cost structure (Hills and Jones, 2004).

Research and Development Strategy

Superior research and development helps a company to achieve greater efficiency and a lower cost structure. The research and development function enables efficiency by designing products that are easy to manufacture. This can be done by cutting down on the number of parts that make up a product hence decreasing the required assembly time, which translates into higher employee productivity, lower costs and higher profitability (Hills and Jones, 2004). Research and development can also help a company achieve lower costs structure by pioneering process innovations. A process innovation is an innovation in the way production processes operate that improves their efficiency.

Human Resources Strategy

The human resources function is one of the key determinants of an enterprise's efficiency, cost structure and its profitability. It seeks ways of increasing employee productivity through hiring strategies, training employees, organizing the work force into self managing teams and linking pay to performance. Productive employees lower the cost of generating revenue, increase the

return on sales and by extension boost the companies return on invested capital (Hill and Jones, 2004).

Production and operation strategies

Production function is a key function in an organization as it deals with the manufacturing of products. Production strategies aim at achieving efficiency through adoption of flexible manufacturing technologies. This involves reduction in setup time for complex equipment, increasing the use of individual machines through better scheduling, improving quality control at all stages of the manufacturing process. Adoption of this strategy improves on capacity utilization, reductions in work-in progress and wastage.

Operations strategy is the total pattern of decisions which shape the long-term capabilities of any type of operations and their contribution to the overall strategy, through the reconciliation of market requirements with operations resources (<http://en.wikibooks.org/wiki/Operations-Strategy>). It involves decisions on such issues as what new product must be developed and when they must be introduced into production, what new production facilities are needed, what new production technologies and processes must be developed and adopted. Operation strategies enable organizations become efficient in production hence reducing wastage and ensuring on-time delivery of products.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study undertaken was in the form of a case study. The research design was chosen to give an in depth account of the challenges the SAL is facing in a competitive and liberalized environment and an in depth account on how SAL has been responding to the challenges. Kothari (1990) defines a case study as a very powerful form of qualitative analysis and involves a careful and complete observation of a social unit, be that unit a person, a family, an institution, a cultural group or even the entire community. It is a method of study in depth rather than breadth.

3.2 Data Collection

Data was collected using an interview guide with open ended questions (attached as Appendix 1). Oral administration of questions on a face to face encounter with the Managing Director and the General Manager, Sales and Exports was conducted by the researcher. This allowed for collection of in depth data. The interview questions captured the changes in the external environment that have impacted on SAL, the impact of the changes and the strategies employed to mitigate the situation.

3.3 Data Analysis

Data was analyzed using conceptual content analysis to enable the researcher generate as much information as possible and make objective inferences on the issues raised. Nachmias and Nachimias (1996) defines content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate trends.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This section presents and discusses the finding of the study. The analysis was guided by the research objective which was to find out how Sameer Africa Limited has responded to the changes in its external environment. The study carried out was to identify the major changes in the external environment that have had an impact on the business, to establish what challenges these changes have presented to the business and identify what measures SAL has taken to mitigate these challenges.

4.2 Changes in the External Environment

The interviewees were asked what changes in the external environment in the last ten years had affected the business operations. From the responses the interviewees were in agreement that certain factors in the external environment had affected the operations of business and had contributed to the decline in profitability.

Globalization is the new wave and companies are seeking new ways to obtain strategic advantages and sustain competitiveness. Significant differences in labor costs among countries create a strong reason to locate global-scale plants for labor-intensive products in low-wage countries. The major tyre companies such as Michelin, Pirelli, and Goodyear are shifting production facilities to the Far East where production is cheaper. This has enabled them to sell their tyres at a relatively low and affordable price due to the advantage of the low cost of production.

The introduction of liberalization in 1992 led to the deregulation and removal of government controls. SAL then known as Firestone East Africa (1969) Ltd was operating as a monopoly therefore the removal of the controls meant that the monopoly era had come to an end. Liberalization led to opening up the Kenyan market to other players and consequently there was a sharp rise in the importation of cheap tyres.

The opening up of the Far East Asian Markets brought about several changes. The governments of these countries particularly those of China and India, embarked on programmes to boost their

exports. One such program is the export compensation program which is an export incentive given to manufacturers to help boost the countries exports to other economies. This has enabled them to embark on aggressive manufacturing for exportation and hence an influx of imports into the Kenyan market.

Newer technologies are being adopted by major tyre manufacturers in the world. This has led to the shifting of customer preferences from bias to radial tyres and tube type to tubeless. The adoption of this technology is extremely capital intensive. There is also a shift to newer types of tyres such as the super single, low profile and the run flat tyres. Production of these types of tyres involves acquisition of new and modern equipment and therefore becomes a very expensive venture. The return on investment will be difficult to achieve due to the low volume of production.

Other changes include the introduction and implementation of the East African Community Common External Tariff (CET) in 2005. This led to lowering of the import duty rates on all tyres leading to an influx of imports into the Kenyan market. The production of tyres involves a substantial use of oil based raw materials. Therefore the increase in international oil prices has caused the prices of these oil based raw materials to go up. The cost of these raw materials in the major categories has increased by between 4% and 5% in the past five years translating into higher production costs leading to higher tyre prices.

The overall economic performance has been fluctuating. Over the last five years, the economy has been on a downturn with inflation rates going up and the continued weakening of the shilling. Due to these changes, the market has become price sensitive and is opting to purchase lesser priced tyre. The SAL tyres are categorized as premium brands meaning they are priced relatively high in comparison to the imported tyres. Customers are therefore opting to purchase the cheap imported tyres and consequently the effect on the business is a decline in tyre sales.

4.3 Challenges to Sameer Africa Limited

The biggest challenge these environmental changes have posed to SAL is competition and technology. Competition being the greatest challenge has been as a result of importation of tyres into the Kenyan market. The imports especially from China and India are cheap and affordable and due to these SAL's once loyal customers are shifting from the locally manufactured tyres to the more affordable tyres. This too has had an effect on the market share which is slowly dwindling and its profits are slowly declining.

The other major challenge to SAL is the lack of newer and modern machinery to manufacture tyres that cater for the changing consumer trends. There is a shift in the market to newer types of tyres such as the tubeless type tyres and the low profile tyres. Sameer Africa Limited's technology is outdated and the machinery is old hence making it difficult for it to respond proactively to the demands of the market. Newer machinery means better production that is less costly especially in energy consumption and a reduction in waste. As a result of the old machinery the production costs are still very high consequently this translates into high tyre prices.

4.4 Responses to the Changes

The interviewees unanimously agreed that SAL had indeed taken various steps in responding to these challenges. To respond to the challenge of competition, SAL has expanded its product portfolio by importing other brands such as Bridgestone, Hankook, Dunlop and other Chinese tyres. This is to supplement the local production so as to keep abreast with the changing technology.

In response to diminishing sales turnover and declining profits, SAL has embarked on a strategy to grow its sales and increase the bottom line. This involves pursuing its goal of fully exploiting the opportunities in the regional export markets. By so doing, it has succeeded in entering the markets of countries such as Malawi, Rwanda, Burundi, Mozambique, Sudan and Somalia. In its effort to increase its bottom line by reducing cost, SAL implemented two major strategies to cut down its costs. This included retrenchment which was carried out in 2006/2007 and the

outsourcing of non core business activities such as transport, clearing and forwarding, and cleaning services.

In its response to declining revenue, SAL embarked on a diversification strategy where it diversified its portfolio into assets, that is, property and into distribution via retail shops set up in the major towns of the country. The property includes Sameer Investment Park, Sameer Export Processing Zones, Sameer Business Park and the retail shops include the Yana Tyre Centres.

From the study done, it is clear the SAL has responded to a very large extent the challenges brought about by changes in the external environment. However, some external environments still pose a challenge to SAL and the response has been slow. These challenges include the rapid changes in technology and the rising costs of production.

Technological advancement in the tyre industry is evident with the growing demand towards tubeless tyres and low profile tyres. This however, poses a challenge as the machinery at the plant is old and outdated and is unable to meet these demands. A change of the machinery to newer and modern technology is crucial. This has been slow and is attributed to the unavailability of financial resource as the investment is in itself very capital intensive.

The cost element on the other hand has been a huge challenge to SAL mainly due the rising costs of raw materials and energy. The raw materials used at the plant are mostly oil based and due to the continued rise in crude oil prices over the past ten years, there has been a marked increase in prices of the raw materials. Energy costs in Kenya have almost tripled in the past ten years and consequently increasing production costs. Notably, efforts are being made to reduce the costs of raw material by seeking synergies with some major tyre manufacturers especially those from the Far East. Through organizations such as the Kenya Association of Manufactures, SAL is lobbying for the reduction of energy costs by the Government of Kenya.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and conclusion

The study was to establish whether Sameer Africa Ltd had been affected by the external environment and if so had it responded and what strategies had it employed. The interview established that over the last ten years, SAL had been affected by several changes in the external environment. The two major changes that have impacted greatly on the firm were the liberalization of the Kenyan market and the changing technology. Liberalization led to opening up the Kenyan market to other players and in turn there was a marked increase in imported tyres. The tyres are relatively cheap and affordable in comparison to the locally manufactured tyres. This marked the beginning of intense competition. Technology too is evolving at a fast pace and it has proved difficult for SAL to keep abreast with the changes. The machinery and equipment at the plant is old and outdated and the adoption of the new and modern machinery is extremely capital intensive.

Several strategies have been implemented to respond to these environmental changes. The most important of these strategies are those focusing on countering the effects of increasing competition and changing technology. These include the expansion of its product portfolio through importation of other tyre brands such as Bridgestone, Dunlop, Hankook, and other Chinese tyres; export expansion by entering other East and Central African markets such as Uganda, Tanzania, Rwanda and Burundi; and the diversification of its business into retail outlets known as Yana Tyre Centres to give customers a wider selection.

In conclusion, it is evident that changes in the external environment have impacted heavily on SAL. This study has therefore established that SAL has indeed responded to the challenges posed by the external environment successfully and is continuing to respond as the environment is still very turbulent and dynamic.

5.2 Recommendations

The study indicates there are several environmental challenges facing the firm and strategies have been put in place to counter their effects with much success. However, more needs to be done for the company to be a going on concern. The study recommends that the decision makers at SAL should be on the look out for any possible factors that may have implications on the business and respond to it in a more appropriately and proactive manner. They should also be given adequate decision making authority to help respond to the change and challenges in time.

5.3 Limitations

1. One limitation is that the research was quite subjective as it was conducted in a limited sphere.
2. The interviewees were not easily accessible due to their busy schedules therefore this caused a delay in conducting the interviews.

5.4 Suggestions for Research

As the external environment continues to be very turbulent and dynamic, there are several areas in which research can be conducted:

1. The relationship between choice of strategy and the overall performance of the firm.
2. The effects of promotion and advertising on the company's profitability.

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Appendix
INTERVIEW GUIDE

SECTION A: RESPONDENT'S INFORMATION

1. Please indicate your:
 - a. Name (optional) _____
 - b. Position held _____
2. How long have you worked with Sameer Africa Limited?
3. How long have you held this position?
4. What is the nature of your business?
 - a. Manufacturing only
 - b. Manufacturing and distribution
 - c. Distribution only

SECTION B: NATURE OF CHANGES IN THE EXTERNAL ENVIRONMENT

5. Describe the major changes in the external environment that have affected Sameer Africa Limited in the last 10 years? (such as liberalization of the economy, changes in technology, increased competition, increase in excise duty, decrease in the import duty)
6. What challenges have this changes posed to Sameer Africa Limited and to what extent? Explain
7. Has this influenced your decision making?

SECTION C: RESPONSES TO CHANGES IN THE ENVIRONMENT

8. What strategies have you employed in responding to the challenges arising as a result of the changes in the environment?
9. Have the responses produced the desired results?
10. Are there challenges that Sameer Africa has not responded to?
11. If so, how is Sameer Africa Limited intending to respond to these challenges?