

STRATEGIC RESPONSES BY FIRMS FACING CHANGED
ENVIRONMENTAL CONDITIONS - A STUDY OF MOTOR
VEHICLE FRANCHISE HOLDERS IN KENYA

By

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A Management Research Project Submitted In Partial Fulfilment of the
Requirements For the Degree of Master of Business and Administration,

Faculty of Commerce,

University of Nairobi

July, 1997

DECLARATION

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

Signed HK Kombo Date 7.10.97

HENRY KIMWOMI KOMBO

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

Signed E. Mududa Date 22/10/97

ELIUD OMONDI MUDUDA

ACKNOWLEDGEMENTS

This project owes much to my wife Mary Moraa with love to whom I am grateful. Also, I am sincerely grateful to my supervisor, Mr. Elud Omondi Mudada, for his

To our children: Lydia, Collins, Janvan, and Hilary with hope. His valuable ideas, recommendations and support were very helpful throughout the project. My appreciation also goes to Dr. Peter K'Obonyo, Dr. Martin Ogutu and Mr Vincent Kipwari for their advice during my project preparation.

Secondly, my thanks are also due to the managers of the franchise holders for their generosity in completing the questionnaires which formed an integral part of the research project.

Thirdly, I am grateful to my mother, Prisca Moraa, who has brought us through a long way and who understood the need to educate. Thanks are also due to my brothers, sisters, nephews, nieces and cousins for their support and encouragement. I am also grateful and proud of my wife Mary Moraa and our children - Lydia, Collins, Janvan and Hilary for their patience as I was not able to be with them during my period of study.

Fourthly, I am indebted to my MBA colleagues for their encouragement and advice whenever I required it.

Finally, I must thank all the other people who assisted me in various ways to make the project a success. I was unable to mention all of them here, but I am sincerely grateful for all the help they offered.

ACKNOWLEDGEMENTS

This project benefited from the help of many people to whom I am grateful. First, I am sincerely grateful to my supervisor, Mr. Eliud Omondi Mududa, for his generous commitment of time, energy and ideas at all stages of the study. His valuable ideas, recommendations and support were very helpful throughout the project. My appreciation also goes to Dr. Peter K'Obonyo, Dr. Martin Ogutu and Mr Vincent Kamasara for their advice during my project preparation.

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To determine whether the firms have changed their missions, goals, objectives, policies and plans in response to competition.

To determine what adjustments in product, price, promotion, distribution, cost structures, research and development, and market predispositions the firms have adopted in response to competition.

Primary data was collected using open-coded and closed-ended questionnaires from a sample of 10 firms which had established in Kenya before the industry was liberalized. The data was thereafter analysed using tables, mean scores, and percentages.

The analysis revealed that in their missions, the firms have made changes in their principal technologies by investing in new equipment so as to make competitive products. They have also changed their basic products by adding new features. Initiatives to penetrate new market niches was also revealed. The firms' philosophies are now more specific and are directed towards enhancing efficiency in customer

ABSTRACT

The on-going economic reforms have created a fundamental shift in the environment in which firms operate. The major outcome of the reforms is liberalisation of trade. Firms in Kenya are now operating in a competitive environment.

The study set out to document the strategic responses of the motor vehicle franchise holders in Kenya to the changed environmental conditions. To achieve this, the objectives of the study were:

- To determine whether the firms have changed their missions, goals, objectives, policies and plans in response to competition.
- To determine what adjustments in product, price, promotion, distribution, cost structures, research and development, and market predispositions the firms have adopted in response to competition.

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service.

CHAPTER I

The firms have made changes in the ranking of their goals. Most firms now rank survival to be the most important goal unlike before liberalisation when profitability was more important. The firms have changed their policies, and the policy that almost all the firms have changed is the marketing policy in which more aggressive marketing is now adopted.

In planning, the firms now adopt participative management than was before liberalisation. Ideas from all levels of staff are now welcome, there are frequent interactions to review the plans and communication of plans is now enhanced in most of the organisations to ensure the understanding of the plans developed.

The franchise holders have also made adjustments in their strategic variables either moderately or significantly. The most adjusted strategies are the product strategies in which most firms have significantly improved their product qualities, features and offering of a variety of models. In promotion strategies, advertising expenditures have been increased considerably. In research and development, the firms have very much increased information gathering on competitors and customer needs and efforts are directed to satisfy the customers' needs. In cost structure strategies, the analysis revealed significant improvement in technology and capital investment in information technology. The other strategies such as pricing and distribution have been moderately adjusted.

CHAPTER I

INTRODUCTION

1.1 BACKGROUND

Firms are social entities that are goal directed, deliberately structured activity systems with identifiable boundaries (Bedeian 1980). A firm itself as a system is inescapably bound in a variety of inter-relationships to the larger systems that comprise the external environment.

A firm as an open system must interact with the environment to survive. It both consumes resources which it transforms into outputs and then exports the outputs to the environment. Daft (1986) notes that open systems can be enormously complex in that internal efficiency is just one issue and is sometimes a minor issue. The organisation has to find and obtain needed resources, interpret and act on the environmental changes, dispose of outputs, control and co-ordinate internal activities in the face of environmental disturbances and uncertainty if it is to be effective.

It is in the same vein that Aldrich (1980) asserts that to understand the whole organisation, it should be viewed as a system - as a set of interrelated elements that acquires inputs (such as employees, raw materials, information and financial resources) from the environment and then transforms them into something of value (output) that can be discharged back into the environment. He further argues that this interrelationship between the organisation and its environment reflects an organisation's dependency on the environment. Arguing on the same line, Hofer and Schendel (1978) observed that for firms to be effective and hence successful, they

should respond appropriately to changes that occur in their respective environments. The environment in which firms operate in Kenya has changed due to the on-going economic reforms.

The economic reforms taking place in the country were as a result of the Structural Adjustment Programs (SAPs) recommended by the World Bank and the International Monetary Fund (IMF). The programs were started around 1985, though in 1991, Kenya was pressurised to undertake reforms as a condition for quick disbursement of funds from the two bodies when the country was faced with serious foreign exchange shortages and payment pressures (World Bank Report, 1994).

SAPs were introduced to stop economic decline and result in economic growth. According to the World Bank, they were meant to eliminate distortions that prevent efficient allocation of resources in the country such as over-valued exchange rate, high current account and fiscal deficits, low factor mobility, restrictions on domestic and foreign trade, distorted pricing for tradables and inefficient public services. The adjustment programs generally include reforms to:

- Establish a market - determined exchange rate
- Bring fiscal deficits under control and rationalize public investment
- Liberalize trade (for example, by abolishing licences and quantitative restrictions) and tariff policy (by moving toward low and uniform tariff rates), liberalize agricultural prices and similar measures.
- Improved financial sector policy (to achieve competitive returns on financial

market assets, and increase the marginal productivity of capital).

- Improve the efficiency of public enterprises and labour markets to enhance the mobility of goods and labour and to make prices and wages more flexible.
- Improve the coverage and quality of social services (World Bank Report 1994).

These economic reforms have created a fundamental shift in the environment in which firms operate. The major outcome of the reforms is the liberalization of trade in the economy and the firms in Kenya are now operating in a competitive environment. Kenyan industrialists are threatened by import liberalisation. This is due to the fact that liberalisation has led (for example in the motor industry) to the importation of reconditioned and second-hand vehicles into the Kenyan Market (Kenya Motor Industry (KMI) Association). In line with Porter's (1980) observation, this importation threatens the market share of local franchise holders and thus reduce their profitability. In fact due to the SAPs, currently being implemented, both small and large firms are under pressure to be competitive in the levelled out field. Inefficient firms (if they are still surviving) will sooner or later die or survive marginally.

1.2 THE RESEARCH PROBLEM

Before the liberalisation of the Motor Industry, local firms enjoyed a protective regime in that imports of assembled vehicles (complete built-ups) was prohibited (World Bank Report 1994). The local franchise holders were assured of a ready

market for their vehicles. THE STUDY

The recent liberalisation has allowed for the entry of new firms into the industry leading to a relatively large number of participants in the motor industry. While there were only ten franchise holders in 1990, this had increased to eighteen within a period of six years by 1996, with over two hundred models competing for the local market of new cars (AA (K) and KMI 1997). Liberalisation has also led to elimination of restriction of imports of assembled vehicles and buyers can now import at a duty of 35%. There has been a massive importation of second-hand and reconditioned vehicles into the Kenyan market in the recent years (see Appendix A).

The imported vehicles have taken a sizeable share of the local franchise holders' market posing a threat to their survival and to the whole local motor industry and the economy in general. This has led to such concerns as:- and adequacy of the

1. The type of reactions which have been developed by the franchise holders and the industry in general. firms in the industry in their response in the continued study
2. The ways both have developed to try and contain the threat/situation. insight

In spite of the importance of the industry as portrayed here-in on page 7, the researcher is not aware of any study that has been addressed to the above concern/issue. range of the study as it is hoped to guide and make them sustain their

It is due to this perceived situation in the industry that the investigation of the various strategic responses adopted by the firms in the industry becomes of great interest. and as a direction for further research to refine and/or extend the present study.

1.3 OBJECTIVES OF THE STUDY

The purpose of the study is to investigate the strategic responses of the motor vehicle franchise holders in Kenya to the liberalisation of the industry. To achieve this, the specific objectives of the study are:-

- 1) To determine whether the firms have changed their missions, goals, objectives, policies and plans in response to competition.
- 2) To determine what adjustments in product, price, promotion, distribution, cost structure, research and development, and market predispositions the firms have adopted in response to competition.

1.4 SIGNIFICANCE OF THE STUDY

The purpose of the study is to establish the nature and adequacy of the response of the franchise holders to the changed environment. The findings of the study are expected to guide the firms in the industry in their response in the continued changing environment and help them reposition accordingly and have a better insight into regional and global trends as the environment keeps on changing. All those firms in Kenya which face challenges posed by the recent liberalisation will equally benefit from the findings of the study as it is hoped to guide and make them sustain their competitiveness.

Academically, the study is expected to contribute to the existing literature in the field and act as a stimulus for further research to refine and/or extend the present study.

1.5 DEFINITION OF TERMS

There are certain key terms /concepts in this paper that require clear understanding and whose definition is therefore appropriate. Among these terms are the following:

Environment

The definition adopted for the purpose of this study is that of Andrews (1972), who observes that the environment of an organisation like that of any other organic entity, is the pattern of all the external conditions and influences that affect its life and development.

Environmental Conditions

Andrews (1972) points out that environmental conditions include important international and domestic trends of technological, economic, social and political nature. Changes in the environmental conditions shape a firm's opportunities and challenges. This definition will be adopted for the purpose of this study because it encompasses all the elements that constitute a firm's environmental conditions.

Franchise holder

The term Franchise holder here refers to the local vehicle dealer appointed by parent company.

Kenya's Automobile Industry

According to the Automobile Association of Kenya (AA (K)) and Kenya Motor Industry (KMI) Association, Kenya's Automobile Industry is composed of three assemblers: Kenya Vehicle Manufacturers (KVM), Associated Vehicle Assemblers

(AVA) and General Motors (GM), the first two being contract assemblers. The second category comprises eighteen franchise holders who are licensed to import complete knocked down kits (CKDs) and contract the two assemblers for assembly. However, the franchise holders find it economical to import complete Build-Ups (CBUs) for those models whose sales volume is low. The third category comprises of local and foreign components (parts) suppliers while the fourth category comprises the service and repair sector, referred to as the informal sector. The study focuses on the second category -franchise holders. Though GM is an assembler, it will be included in this study because it is the sole local franchise holder for the GM parent company in America.

The Kenya Motor Industry is important to the economy due to its crucial role in transportation and contribution of revenue to the central Government and provision of employment opportunities. Total contribution from licences, petrol and diesel oil taxes and import duties in 1994 was K£ 101,125,800; employment in manufacture and assembly of motor vehicles was 3,265,000 people in 1994, 5,145,000 people in motor vehicle trade and 17, 424 people in service and repair of motor vehicles (Republic of Kenya: Statistical Abstract, Central Bureau of Statistics, 1995).

Strategy

Strategy has been defined differently by different authors. Andrews (1971) defines strategy as the pattern of objectives, purposes or goals and major policies and plans for achieving these goals, stated in such a way as to define what

business the company is in or is to be and the kind of company it is to be.

Hofer and Schendel (1978) define strategy as the fundamental pattern of present and planned resource deployments and environmental interactions that indicate how the organisation will achieve its objectives.

This latter definition will be adopted for the purpose of this study because it brings out an aspect that is important for this study-that any strategy statement must be a description of how the organisation will interact with its environment. Indeed an organisation's present and planned interactions with its environment will determine how effective and efficient that organisation will be.

For firms to be effective and hence successful, they should adapt appropriately to changes that occur in their respective environments (Hofer and Schendel, 1978). We have called such adaptations strategic responses because they alter the conditions for effectiveness.

1.6 OUTLINE OF THE STUDY

This study is structured into five chapters. The first chapter is the introductory chapter. It provides the background of the study, statement of the problem, objectives, importance, definition of terms and outline of the study.

The second chapter is the literature review chapter. This generally focuses on studies that have shown how changes in the environment affect organisations. Literature that has shown how the on-going economic reforms have affected Kenyan organisations is reviewed. Available literature showing how changes in the

environment have affected the local, European, Japanese and American motor industries and how they have adjusted to survive is also reviewed.

The third chapter is the research design chapter. The scope of the study, the population of the study, the sample, data description and collection and data analysis methods are discussed here.

The fourth chapter presents the findings of the study, data analysis and findings.

The fifth chapter contains a summary of the research findings, conclusions, recommendations, limitations and future research directions.

CHAPTER II

LITERATURE REVIEW

2.1 IMPACT OF THE EXTERNAL ENVIRONMENT ON ORGANISATIONS

It has been observed that changes in the external environment have an impact on an organisation. Various authors (Chandler, 1962; Andrews, 1971; Daft, 1986 and Porter, 1991) variously point out that firms are environment - dependent and changes in the environment shape the opportunities and challenges facing the organisation. Understanding of this will help a firm define its objectives and develop competitive methods/strategy. This is necessary if the organisation has to be efficient for success to be attained.

Dess and Origer (1980) have noted that looking beyond the organisation's immediate operating environment to the industry in which it competes has long been advocated. Aguilar (1967), arguing on the same line, observed that managers must shift their environmental scanning from the immediate areas in which the firm competes to the industry as a whole. The same position is taken by Porter (1980) who points out that the "essence of formulating a competitive strategy is relating the company to its environment" and that the key aspect of a firm's environment is the industry in which it competes. He further observes that industry characteristics strongly influence the alignment options available to the firm.

Regarding salient dimensions of industry environments, Dess and Beard (1984) provided a theoretical and empirical support for three dimensions: availability of resources with which the environment can support sustained organisational growth, the

extent of unpredictable change in environmental elements, and heterogeneity of and range of environmental activities. These dimensions similar to those proposed by Child (1972) synthesize two approaches to conceptualizing environments (Aldrich and Mindlin, 1978):

- a) as a source of information and
- b) as a stock of resources.

Environment assessment is considered an antecedent activity to the formulation of company objectives and competitive methods. Andrews (1971) asserts that this is the sequence of the normative literature on strategy formulation.

Porter (1991) points out that the proximate environment will define many of the input (factor) markets the firm has to draw on, the information that guides strategic choices, incentives and pressures on firms to both innovate and accumulate skills or resources overtime. Competitive advantage then may reside as much in the environment as in an individual firm.

Porter (1991) further argues that the environment shapes how activities are configured uniquely and what commitments can be made successfully. Thus the environment is important in providing the initial insight that underpins competitive advantage, the inputs needed to act on it and accumulate knowledge and skills over time and the forces needed to keep progressing. He further points out that the environment through its attributes such as demand conditions, factor conditions, related and supporting industries affects both a firm's initial conditions and its managerial choices.

2.2 STRATEGIC RESPONSES OF FIRMS OPERATING IN CHANGED ENVIRONMENTAL CONDITIONS.

2.2.1 Strategic options

Hall (1980) studied how large manufacturing corporations in America were affected when their external environments became turbulent. He found out that many structures that were stable and highly profitable during the "go-go" decade of the 1960s were moving towards instability and marginal profitability. Moreover the broad range of corporate strategies and "success formulas" which brought prosperity in those early years were no longer working. Instead, these were being replaced with a much narrower range of strategic choices that were becoming essential to survive in the hostile environment ahead. Thus when there are changes in the external environment corporate managers have to direct a great deal of attention to redefining their business as a crucial step to formulation of survival strategies. There is also need to look beyond the ranks of one's competitors today and those that may become competitors tomorrow and exploit new markets.

Abel (1980) observes that a business should be defined in terms of three dimensions: the customer groups that will be served, the customer needs that will be met and the technology that will satisfy these needs. It is in this line that Ndii (1997), argues that the local automobile assemblers have two possibilities to face in the process of motor industry liberalisation. One possibility is for the domestic assemblers to make up for lost business by customizing second hand cars for the domestic market

exactly the same way they customise locally assembled cars. By so doing, they would offer features like in imported cars (such as air conditioning and electric windows) and added measure of reliability.

The second possibility also hinges on the need for the firms' redefinition of their approach to business. Ndii further argues that the assemblers could make a case of changing their status into industry Export Processing Zones (EPZs) as other industries have done. This would enable them to import CKDs or second hand cars for that matter, duty free, and customize them for both the domestic market and for export. In this case, they would only pay duty for the units sold into the domestic market and thus avoid the import duties and other domestic taxes which they claim erodes their competitiveness.

Porter (1980) suggests three generic competitive strategies which can help a firm develop a competitive edge over its competitors in a competitive environment. A firm can develop a strategy of overall cost leadership, differentiation strategy and focus strategy.

To achieve overall cost leadership in an industry, a firm can adopt functional policies and resort to aggressive construction of efficient-scale facilities. This can be done through rehabilitation of the plants and machinery and installation of new plants and machinery, if necessary, to enhance efficiency and cost reduction. Cost leadership can also be achieved through input sourcing from cheaper suppliers and also through heavy up-front capital investment in state-of-the art equipment to reduce costs of customer service delays and minimize the cost of errors. Cost leadership will enable

a firm to be able to compete favourably through price cuts especially when dealing with customers who are price sensitive.

Porter further argues that a firm can also adopt a strategy of differentiating its product or service offering as a means of trying to create something that is perceived industry-wide as being unique. Product uniqueness can be achieved, for example, through design and creation of innovative features. The firm can then carry massive campaigns emphasizing the product's uniqueness, the various models/brands available so as to build a strong brand identification and great customer loyalty to defend itself against competitors' products.

The other strategy Porter suggested is that of focus. This means that firms have to focus on a particular buyer group, segment of the product line or geographic market. This is based on the realisation that in a competitive environment, firms should narrow their operations to target specific markets so as to develop a competitive edge.

2.2.2 Studies in other industries

Bett (1995) found that due to the on-going economic reforms in the country, firms in the dairy industry made some adjustments in their marketing mix components of product, price, promotion and place in order to adapt to the changes and remain competitive in the liberalised industry. The firms made decisions on product range, differentiation, quality and brand name to enable them remain competitive. On prices, decision on price levels, discounts and allowances were important to enhance

customers' perceived value. On promotion, the firms did little advertising but participated in show exhibitions as a way of promoting their products. On the place variable, the firms made decisions on the distribution channels to use, given their objective and the nature of the product in a way that enhanced place utility.

Bett further found out that in addition to the changes in their marketing mix components, the firms adopted more market driven strategic approaches. They engaged themselves in market segmentation and market planning in order to cope with the competitive environmental challenges. The firms also paid attention to the activities of their competitors while, at the same time, undertaking to know what was happening within the industry and their markets. In the environment that was dynamic, the firms found it necessary not only to be focused in their identification of key issues but also to be flexible and adaptive.

Steel and Webster (1992) found out that small scale enterprises in Ghana adapted to the competitive environment as a result of SAPs by altering their product mixes. Some firms, unable to compete with imports, shifted to producing different products. Changes in product mix were especially prevalent in those sectors whose products were more vulnerable to competition from standardized imports. Along with changes in product mix, a number of firms shifted their market strategies. The firms revealed considerable initiative in seeking newly opened market niches. Large firms in particular had to seek out new domestic markets while some firms became interested in exporting.

Steel and Webster further found out that in their attempt to reduce costs, most

firms also changed their input sourcing behaviours as most of the firms opted for cheaper sources. Majority of the firms that were previously not favoured by import licensing system reported substitution of domestic for imported inputs under the adjustment programs. Also in their effort to cut costs, under the SAPs, employment fell rapidly in most of the medium and large scale firms under study, partly because many were able to shed excess labour and partly because they were squeezed between high costs of imported inputs and greater competition from liberalised imports. Generally most of the firms surveyed altered their strategies and generally by higher proportions for those established before the SAPs were implemented and by lower proportions for those firms established after the SAPs were implemented.

2.2.3 Studies in the motor industry

Mohammed (1995) found out that the importation of reconditioned and used motor vehicles affected the marketing mix components of franchise and subsidiary motor vehicle companies in Kenya. The firms realised the need to moderately adjust their marketing mix components especially promotion, people and probe, these last two having been lately recognized as further components of the marketing mix. The companies used constant price program backed by product differentiation strategy together with moderate promotion and distribution activities. The importation affected the firms which then realised the need for the enhancement of their existing relative strengths and competitive advantage vis-a-vis their rivals, the need for more superior quality products, better organisation, better knowledge and skills of their personnel and

better financial position.

Mohammed further observed that the firms did not realise the importance of research in order to determine the opinion of their potential customers towards the introduction of new motor vehicle makes which would be of lesser quality but cheaper than the existing ones. He recommended this strategy since this would enable them to focus their marketing efforts to a new, independent and viable market segment consisting of the low income group of consumers as this would enable them have a better opportunity to regain at least most of their market share previously lost to the dealers of reconditioned and used vehicles.

In their response to "assault" from a new wave of importation of cars and Japanese car manufacturing plants opening in America, the three big American motor vehicle producers: General Motors (G.M), Ford and Chrysler found it necessary to co-operate in their attempt to limit Japanese car sales. G.M. scrapped plans to produce its impact electric car and instead was considering a joint venture with Ford and Chrysler that could mean sharing an assembly plant (The Economist, January 16th - 22nd 1993). The three firms had entered into a joint pre-competitive research and had launched nine separate consortia aimed at tackling a variety of problems ranging from recycling to batteries for electric vehicles. The Ford company had invested in a series of television commercials to enhance its sales leadership. They also adopted fierce price-cutting to raise sales. To reduce costs, the company announced considerable job cuts.

When Daimler-Benz, best known for high-tech cars, realised that competition

would weaken its core businesses, it spent millions to expand into sectors with supposedly bright futures - aerospace, electronics and rail transport (The Economist, June 26th - July 2nd 1993). With the increased competition, Daimler's plan was not to sell more cars, but to sell higher quality ones. To enable Daimler earn profits, the firm had to eliminate two layers of management, slashed the workforce, bought more parts from outside and at Mercedes-Benz, learnt "target pricing" - the skill of developing and making products to suit the budgets of potential customers. Daimler got credit for adapting to changes in markets and technology by reinventing themselves. In the factory, German managers were belatedly learning Japanese lessons in lean production and American ones in "business re-engineering".

To enable the Honda and Toyota retain their market share (The Economist, February 1st - 7th 1993), the firms identified the Japanese consumers' change to recreational vehicles. Honda came up with recreational dark window and folding seats as different sorts of recreational vehicles are proliferating, targeting the Japanese consumers' changed preferences from saloon cars to recreational vehicles. The firms have realised that to keep up with fashion means carving niches in a crowded market. Launching lots of models, aggressive marketing campaigns helped the firms to claw their way back to a one-third share of Japan's car market. The firms also realised that with increased competition, companies must come out with new products, and do so more quickly than in the past, designed for the Japanese market. This has made it hard for American manufacturers, most of whose offerings are saloon cars, to penetrate the Japanese market.

The one company that has been sailing steadily through the competition in the European car market has been the Volkswagen (VW) including its Audi, SEAT and Skoda brands. VW is the largest car maker in Europe with a 17.2% share of sales while GM, the runner-up, has only 12.55% (The Economist, January 18th - 24th 1997). Much of the improvement comes from VW's grasp of brand management and marketing, admired by all its competitors. But a dramatic improvement in factory efficiency has turned the increased sales into profits.

In his observation as to how firms can survive in this era of global competition, Porter (1996) asserts that success can be achieved by uncovering new markets, new technologies, new products and new concepts. And that does not happen by down-sizing. Instead, it requires investment in both human capital and innovation, along with a recognition that a failure to expand plants, offices, and workforce is ultimately a recipe for capitulation of market share in a rapidly growing global economy.

3.3 THE SAMPLE

The study focuses on franchise holders which had established in Kenya before 1991 when the industry was liberalised. It was perceived that these are the firms that have been affected most and altered their strategies generally by higher proportions than those franchise holders that established their operations in Kenya as a result of liberalisation (Steel and Webster, 1992). There were ten franchise holders that had been established in Kenya before 1991 (See Appendix C). All the ten firms were

CHAPTER III

RESEARCH DESIGN

3.1 SCOPE OF THE STUDY

This study is a survey on the motor vehicle franchise holders in Kenya. It aims at documenting the strategic responses of the franchise holders to the changed environmental conditions seen in terms of increased competition. The study targets the franchise holders that had established in Kenya before 1991 when the motor industry was liberalised. All such firms are located in Nairobi.

3.2 THE POPULATION

The population of this study consists of all motor vehicle franchise holders in Kenya. As at March 1997 there were eighteen franchise holders in Kenya (See Appendix B). Subsidiary companies were not included in this list because often subsidiaries have the same management practices as their mother companies (Blunt, 1978). To study strategic responses in both the mother and their subsidiaries would be a duplication of research efforts.

3.3 THE SAMPLE

The study focuses on franchise holders which had established in Kenya before 1991 when the industry was liberalised. It was perceived that these are the firms that have been affected most and altered their strategies generally by higher proportions than those franchise holders that established their operations in Kenya as a result of/after liberalisation (Steel and Webster, 1992). There were ten franchise holders that had been established in Kenya before 1991 (see Appendix C). All the ten firms were

considered for the study as their number was small enough to warrant this. Efforts were made to collect as much detailed information as possible from the respondents.

3.4 DATA DESCRIPTION AND COLLECTION

This study used primary data. This was collected using an open-ended questionnaire. General Managers, Marketing Managers or other relevant senior officers were interviewed to obtain specific details. This was aimed at making it easier for the researcher to explain questions the respondents were unclear about and also to help the researcher get a better understanding of the problem in relation to competitive response. Probes were used where necessary to capture desired information. The "drop-and-pick later" method was used where personal interviews were not possible to help cut down on non-response rate.

3.5 DATA ANALYSIS TECHNIQUES

Data in this study was analyzed using descriptive statistics. These included tables, proportions/percentages, and mean scores to achieve the set objectives. Mean scores were calculated to indicate what adjustments have been adopted on the strategic variables in response to competition. The mean scores were ranked on a 5-point Likert scale with 1 taken to mean the highest level and 5 the lowest level. These descriptive analytical techniques have been exclusively applied in related studies in the past by Bett (1995) and Steel and Webster (1992).

CHAPTER IV

DATA ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

This chapter deals with data analysis and interpretation of the research findings. The data is summarised and presented in form of means, percentages and tables. It documents whether the firms have changed their missions, goals, objectives, policies and plans in response to competition. It also documents what adjustments in product, price, promotion, distribution, cost structure, research and development and market predispositions, the firms have adopted in response to competition.

All the ten franchise holders chosen for the study were analyzed. Five respondents were interviewed on the basis of the questionnaire whereas five respondents filled the questionnaires through the "drop-and-pick-later" method because personal interviews were not possible.

According to the responses received the pre-liberalisation establishment of the firms of concern can be depicted as follows:-

Table 4A: Period of establishment of the franchise holders in Kenya.

Year incorporated	Before 1970	1970-79	1980-89	1990-91
No of franchise holders	7	3	-	-

The focus of the study is the ten franchise holders that had established in Kenya before 1991. But as can be seen from table 4A, virtually all of them were

established by 1979, with the first being established by 1970.

According to the respondents, the markets served by these firms stand as follows:-

Table 4B: Distribution of firms into markets served.

Market Served	Number of firms
Domestic only	4
Foreign only	-
Domestic and foreign	6

As table 4B shows, out of the 10 firms, 4 of them, representing 40% of the sample, serve domestic markets only whereas 60% serve both domestic and foreign markets. Domestic here refers to Kenyan market and foreign means any market outside Kenya. The firms that serve foreign markets target at the Preferential Trade Area (PTA) region.

Perception of Competition

Table 4C: Distribution of firms into their perception of competition.

Level of Competition	No. of firms
Very stiff	6
Fairly stiff	4

Regarding how the companies of concern view their business domain to be, as shown in table 4C, 60% of the firms view competition in the industry to be very stiff

whereas 40% of the firms view competition to be fairly stiff within the firms.

The managers of the five firms who were interviewed argued that competition in the industry has increased due to the increased participants in the industry and the importation of second hand and reconditioned vehicles due to the liberalisation of the industry. The respondents further argued that liberalisation has affected their sales (see appendix D).

For all the firms, the sales dropped since 1991 to depressed figures in 1993 as shown in appendix D. The respondents, however, indicated that there has been an encouraging growth as evidenced by the trend since 1994 during which sales of new vehicles picked up, after which a remarkable recovery was achieved in 1995 and 1996. They attribute the improvement in sales mainly to adoption of aggressive marketing campaigns and provision of a variety of models with recreational features to customers. However, they observed that though the sales have been picking up, the current figures are still lower than figures of the vehicles sold in 1989 and 1990 mainly due to the liberalisation of the industry.

4.2 CHANGES IN FRANCHISE HOLDERS' MISSIONS, GOALS, OBJECTIVES, POLICIES AND PLANS IN RESPONSE TO COMPETITION

With the foregoing overview of how the companies of concern view their business domain to be, it is now appropriate to document whether the firms have changed their missions, goals, objectives, policies and planning in response to

competition. Also found to be necessary to these firms is the need to ensure that their

Company Missions unique features to enhance their attractiveness to customers. The

The respondents were asked to indicate whether competition had led to a change in any of the components of their companies' missions and to explain the changes, if any. Table 4D shows the results.

Table 4D: Distribution of firms into whether changes had been effected in any components of the mission in response to competition.

Whether effected changes Mission components	YES	NO	TOTAL
Basic product	7	3	10
Primary market	6	4	10
Principal technology	7	3	10
Company philosophy	5	5	10

As revealed in table 4D, most of the firms have changed the components of their missions as a result of competition. As can be seen, 70% of the firms have changed their basic products, 60% have changed their primary markets, 70% have changed their principal technologies and 50% of the firms have changed their company philosophies.

The firms that have changed their basic products cited the reason to be diversification of risk and they have now come up with a number of new models to

the market. Also found to be necessary to these firms is the need to ensure that their basic products have unique features to enhance their attractiveness to customers. The firms that have changed their primary markets found it necessary to widen their market coverage by targeting all sectors of the market - both corporate and individual buyers. The respondents argued that before liberalisation, growth and/or profitability

were p The change in principal technology has been necessitated by the need to develop a competitive edge. The firms are now upgrading their technologies by adding new equipment and machinery to ensure that their products are of high quality and have more features to enhance their utility to the customers. The respondents argued that technological update was quite necessary to match the changes in the environment. respondents were asked to rank their company's objectives in order of

important The firms that have changed their company philosophies indicated that their new philosophies are aimed at enhancing customer service and being committed to excellence. However, the firms that have not changed their company missions argued that their missions are changed by the parent companies only and are the same world-wide. One of the respondents argued that growth was the major reason for the changes in his company's mission and competition was just part of the equation. However, those who have not changed their company missions as indicated in table 4D argued that this had not destabilised their operations. p is more important, then competitive

position, profitability and return on investment, employee relations and development. The respondents argued that to succeed in a competitive environment, it is technological leadership that accounted most to order to enable a firm develop a

Goals

In their responses as to whether the firms have changed order of importance of their goals in response to competition, 90% of the respondents indicated that they have changed the order of importance of their goals after the liberalisation of the industry. The respondents argued that before liberalisation, growth and/or profitability were given priority. But after liberalisation, survival is now ranked first by all these firms followed by growth and profitability.

Company Objectives

The respondents were asked to rank their companies' objectives in order of importance before and after liberalisation. According to the respondents, six firms, representing 60% of the firms, have changed the ranking of their objectives.

For the firms that ranked the objectives concurred that before liberalisation, competitive position, technological leadership, profitability and return on investment were ranked to be among the most important objectives. But after liberalisation, technological leadership is now the most important objective. The respondents to whom the questionnaire was administered personally were in agreement that with increased competition, technological leadership is more important, then competitive position, profitability and return on investment, employee relations and development.

The respondents argued that to succeed in a competitive environment, it is technological leadership that accounted most in order to enable a firm develop a

competitive position by adding unique features to its products, have high productivity, hence high profitability and return on investment. However, the other four firms indicated that they have not changed the order of importance of their objectives, arguing that all the objectives were and still are equally important.

Company policies

On company policies, the respondents were asked to indicate whether there has been a change in any of their company policies in response to competition. They were also asked to explain the changes if any. The results are as indicated in table 4E below:

Table 4E: Distribution of the firms into whether changes had been effected in any of the company policies in response to competition

Whether effected changes Policies	Yes	No	Total
Personnel policy	7	3	10
Purchasing policy	6	4	10
Financial policy	7	3	10
Marketing policy	9	1	10
Research and development	5	5	10
Operating policy	6	4	10

As-table 4E shows, seven of the ten firms have made changes in personnel

policy. The respondents explained that with liberalisation, their firms now emphasize more on highly skilled staff and investing in training and development programmes. One respondent said that his firm now organises training of staff overseas in their principal's factory to improve their skills. Another respondent said that his firm was now more concerned with getting the best and maintaining them by reviewing their terms regularly.

On the question of change in purchasing policies, six firms indicated that they have changed their purchasing policies. With liberalisation of the industry, and liberalisation of trade, the firms are now more strict and ensure that they procure their inputs from cheaper sources - at the best possible prices. The respondents indicated that they now substitute imported for domestic inputs. Seven firms have changed their financial policies in response to liberalisation. The firms now adopt more tight financial policies with more regular audit of their finances. One respondent said that his company now ensures that they turn out stock first than before. Credit periods are also now regularly reviewed to reduce the number of days that credit is availed. Effort to keep borrowing costs low is also given high priority in view of high interest rates.

As far as marketing policy is concerned, nine firms have changed their marketing policies. The respondents who were interviewed gave the explanation that the firms now adopt a more aggressive sales and marketing strategies. The firms are now market-oriented and they now devote more time on understanding their customers' needs and providing the best to meet the buyers' needs at an affordable price.

On research and development policy, 50% of the respondents have made changes in this area. The changes that were commonly indicated include introduction of research and development department as well as investing more in these departments with emphasis on undertaking of marketing intelligence to enable the companies understand their marketing environment in their attempts to develop a competitive edge.

In relation to operating policies, six of the firms were found to have changed these. In-time delivery is now emphasized and the firms now adopt strict measures by engaging skilled staff and new machines so as to enhance efficiency and effectiveness. However, one of the respondents argued that their company policies are formulated from the headquarters and are the same worldwide.

The finding that most firms have changed their policies is indeed quite pertinent. Policies provide guidelines for establishing and controlling the on-going operating processes of the firm in a manner consistent with the firm's strategic objectives. Thus it is necessary that once the environment in which a firm operates changes, implying, change of the objectives, the policies have to be changed to be consistent with the company's objectives.

Planning

Regarding planning, the respondents were asked to indicate whether their firms had effected changes and adopted participatory planning, review of the plans and communication of the plans in the organisations. It was found that due to changed

environmental conditions, eight firms have effected changes in their planning. The respondents concurred that there is now increased level of participation in planning exercise by low level staff unlike in the past when only top level staff participated. The respondents argued that there is now improved communication throughout the organisation to ensure that the workers understand the developed plans and their ideas are now welcome. In the development of the budgets, company-wide plans and functional plans, the chief executives and functional heads now interact more frequently than before. There are also frequent interactions/meetings to review the plans.

However, three firms indicated that with the rapidly changing environment, they plan over shorter durations unlike when the industry had not been liberalised. Where long-term plans were made, they are now regularly reviewed to reflect changes in the environment.

4.3.1 With the competition in the industry, and the need to do things right, six organisations indicated that they were now forced to adopt better organised systems of planning. They now engage themselves in formal planning with deliberate attempts to develop plans which are written after being developed.

Practice of some participative management is welcome due to the fact that with increased competition and the need to be responsive to the rapidly changing environment, decentralisation becomes a prerequisite to success.

4.3 ADJUSTMENTS ON STRATEGIC VARIABLES IN RESPONSE TO COMPETITION

In order to understand the current strategic responses of the firms to the increased competition in the industry, specific strategies were posed to the respondents and they were asked to indicate the level of adjustments that they have adopted in response to competition. The adjustments were ranked on a 5-point Likert scale. A mean score was computed for each strategy, with 1 taken to mean highest level and 5 taken to mean lowest level. The strategic variables were product, price, promotion, distribution, cost structure, research and development and market predispositions. These were perceived to be the major strategic variables that a strategist can use to effectively respond to changes in the environment. This section covers the analysis and interpretations on these issues.

4.3.1 Product strategies

Product strategic decisions as already discussed entails endless combination of model quality, features, brands and servicing. The strategies raised were on product range, product quality, introduction of unique features and after sales service.

Table 4F: Mean scores of adjustments on product strategies

	Product strategies	No. of firms	Absolute score	Mean score*
1	Improvement of model quality standard	10	11	1.10
2	Introduction of new models	10	13	1.30
3	Introduction of unique model features	10	14	1.40
4	Offering of after sales services	10	13	1.30

*Mean score ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.

From table 4F, all the mean scores are approximately 1, showing that all the product strategies have been significantly adjusted as the firms' strategic responses to competition. However, the strategy of improvement of model quality standards has been adjusted more than the other three product strategies. In fact all the respondents who were interviewed were in agreement that to survive in the current market, one needs to continuously improve the quality of the product offering and offer a variety of models, create unique features and offer superior after - sales services.

The significant adjustments in product strategies need to be enhanced given that a product is the most important element of the marketing mix that links the company with the consumer. It should be tailored even more to suit the customers' needs.

4.3.2 Pricing strategies

Table 4G: Mean scores of the adjustment on pricing strategies

	Pricing strategies	No. of firms	Absolute Score	Mean scores *
1	Giving generous price discounts	10	18	1.80
2	Charging low prices to increase sales volume	10	21	2.10
3	Setting low prices to enhance product volume	10	21	2.10
4	Setting high prices to enhance product image	10	34	3.40
5	Use of credit facilities	10	22	2.20

*Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.

From table 4G the mean score of 3.40 indicates that the firms have not changed much their pricing strategies by setting high prices to enhance product image.

All the other strategies have mean scores of approximately 2 and are interpreted to mean that the firms have moderately increased the use of these pricing strategies in their response to competition. One respondent said that his firm is now selling purely on discount basis. Another respondent said that they were now setting low prices to enhance product volume and that the company is now volume driven as a survival strategy. Three of the ten respondents said they were now using credit

facilities where the customers could pay low deposits and comfortable monthly instalments.

4.3.3 Promotion strategies

Table 4H: Mean scores of adjustment on promotion strategies

Promotion strategies	No. of Firms	Absolute Scores	Mean scores*
Advertising expenditure	10	12	1.2
Emphasizing on model suitability to local conditions in advertisements	10	13	1.3
Use of various advertising media	10	17	1.7

*Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.

From table 4H the mean scores of 1.2 and 1.3 indicate that the franchise holders have highly increased the respective promotion strategies. The five respondents who were interviewed argued that with the increased competition, their firms have significantly increased advertising expenditure to create awareness to potential customers of the existence of their models and to position the unique features of their products in the minds of potential customers. Four other firms indicated that in their advertisements, they do highly emphasize on their models' suitability to the local conditions so as to create a competitive position.

4.3.5 The mean score of 1.7 is interpreted to mean that the firms have moderately increased the use of various advertising media. Five firms indicated that they have now started using the radio, newspapers and magazines as their advertising media more than they did before liberalisation.

4.3.4 Distribution Strategies

Table 4I: Mean scores of adjustments on distribution strategies.

	Distribution strategies	No. of firms	Absolute Score	Mean scores*
1.	Use of various distribution channels	10	21	2.10
2.	Opening of branches at strategic areas	10	22	2.20

*Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.

As shown in table 4I all the distribution strategies have a mean score of approximately 2 which are interpreted to mean that the firms have moderately increased the distribution strategies as their strategic responses to competition. Five of the ten firms explained that they have increased the number of dealers countrywide and have opened branches/show rooms at strategic areas as a competitive response.

4.3.5 Cost structure strategies

Table 4J Mean Scores of adjustments on cost structure strategies.

	Cost structure strategies	No. of firms	Absolute score	Mean scores*
1.	Change of input sourcing - substitution of imported for domestic inputs	10	24	2.40
2.	Staff retrenchment	10	30	3.00
3.	Efficiency in operations	10	18	1.80
4.	Improvement in technology	10	13	1.30
5.	Capital investment in state of the art equipments (information technology)	10	14	1.40
6.	Internal co-ordination and control	10	17	1.70
7.	Information exchange across activities	10	17	1.70

*Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.

From table 4J the mean score of 2.40 is interpreted to mean that the firms have moderately increased the substitution of imported for domestic inputs. Three of the firms indicated that they now source more of their inputs from South Africa. Through the interviews, 2 respondents indicated that they source inputs from their franchisers/principals. One respondent pointed out that their firm's purchasing decision criteria is buying from the cheapest source. However, two of the respondents said that they import finished products from their parent companies/franchisers.

The mean score of 3.00 is interpreted to mean that the strategy of staff

retrenchment has not been changed. Three respondents said that their firms have not reduced their work force but instead they were now increasing their staff and were now going for more skilled manpower to enable them survive in the current competitive environment. The mean score of 1.8 is interpreted to mean that the firms have considerably improved efficiency in their operations.

The mean score of 1.3 is also interpreted to mean that the firms have significantly improved their technology. Five of the respondents said that technological improvement is necessary to create a strong competitive position. The mean score of 1.4 means that capital investment in state of the art equipment has very much increased. The mean scores of 1.7 are approximated to 2 and are interpreted to mean that there are moderate increases in these strategies. Thus internal co-ordination and control, and information exchange across activities have been moderately increased. Three of the respondents who were interviewed said that this had increased in all departments. But two of them said that coordination and information exchange was mainly between marketing and service departments to ensure customer satisfaction.

The cost structure strategies adopted by these firms will help the firms to reduce the prices of their products and be competitive especially by making their products appealing to price sensitive customers.

4.3.6 Research and Development

is not been investing much in research but it is currently changing and is now planning to set up a research department.

Table k: Mean Scores of adjustment on Research and Development Strategies.

	Research and Development Strategies	No. of firms	Absolute score	Mean Score*
1.	Marketing research expenditure to identify customer needs	10	14	1.40
2.	Information gathering on competitors' - Product - Price - Promotion - Production - Distribution	10 10 10 10 10	11 11 12 18 17	1.10 1.10 1.20 1.80 1.70
3.	Investment in training and development programs	10	16	1.60
4.	Hiring of experts/consultants	10	20	2.00

*Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.

Six of the firms indicated that they mainly hire experts in service and computer areas to enable them improve their services to their customers.

The contributions of research and development cannot be underestimated. It greatly influences the development of new products. Product innovation contributes greatly to any company's growth and survival in the market. Harris and Money (1990) suggested this fact observing that it is a critically important condition for survival in a changing environment.

From table 4K the mean score of 1.4 is interpreted to mean that the firms have considerably increased the marketing research expenditure to identify customer needs. Five of the respondents said that to succeed in business today demands identifying customers' needs and satisfying them better than competitors and this calls for the need to increase marketing research expenditure to identify these needs. One

The concern about increasing competitors' strategies is in order because it is

respondent said that his company has not been investing much in research but it is currently changing and is now planning to set up a research department.

The mean scores of 1.1 and 1.2 are interpreted to mean that information gathering on competitors' products, prices and promotion have significantly increased. The mean scores of 1.7 and 1.8 are approximated to 2 and are interpreted to mean that the firms have moderately increased information gathering on competitor's distribution and production methods. Another information on competitors which was cited by 60% of the respondents was information on competitors' financial strength and support from their principals. These respondents argued that it was important to increase the gathering of this information because it is necessary to know the strengths of rivals as a basis to creating competitive strategies.

The mean score of 1.6 is interpreted to mean that investment in training and development programs have been considerably increased. The mean score of 2 is also interpreted to mean that hiring of experts/consultants has been moderately increased. Six of the firms indicated that they mainly hire experts in service and computer areas to enable them improve their services to their customers.

The contributions of research and development cannot be underestimated. It greatly influences the development of new products. Product innovation contributes greatly to any company's growth and survival in the market. Harris and Monery (1990) stressed this fact observing that it is a critically important condition for survival in a changing environment.

The concern about assessing competitors' strategies is in order because it is

necessary to know competitors well in order to effectively compete with them. Strategic moves of one company affect or influence the actions of the other rival companies. As a result, the actions of rivals have a direct relevance in the choice of a firm's strategy. This is true because one has to succeed in such competition because as just as the focus of one firm's efforts is the customer, so is that of competitors. Thus the franchise holders emphasis of research and development and, especially, of information gathering about their competitors is a positive step towards success in a competitive environment.

4.3.7 Market predispositions

Table 4L: Mean scores of adjustments on market predisposition strategies.

	Market predisposition strategies	No. of firms	Absolute score	Mean score *
1.	Focus on certain market segments	10	12	1.20
2.	Initiative to seek new domestic markets	10	13	1.30
3.	Initiative in seeking new foreign market niches	10	27	2.70
4.	Development of models to suit the budgets of potential customers	10	14	1.40
5.	Identifying and targeting buyers of their models	10	13	1.30

*Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.

From table 4L, the mean score of 1.20 is interpreted to mean that the firms have significantly increased their focus on certain market segments. The mean score of 1.30 is also interpreted to mean that the firms have considerably increased their initiative to seek new domestic markets. All the five respondents who were interviewed said that their efforts to increase the number of branches and advertising expenditure are attempts to seek new markets.

The mean score of 2.70 is approximated to 3 and is interpreted to mean that the firms have slightly changed their initiatives in seeking new foreign market niches. However, six firms indicated that they are planning to start exporting to Uganda and Tanzania, the two neighbouring countries.

The mean score of 1.40 is interpreted to mean that the firms have significantly increased development of models to suit the budgets of potential customers. Five respondents said that they now have a variety of models targeting the buyers of various classes of income.

The mean score of 1.30 is interpreted to mean that the firms have considerably increased their efforts in identifying and targeting buyers of their models. Four respondents said that their firms were now more focused and were practising more direct and personalised selling.

The other strategy that some firms are adopting was that of trade-ins. Three of the ten firms have a used car division where individuals can trade-in their used cars to the franchise holders for new cars and then the used cars are sold to customers who demand them due to their low prices.

CHAPTER V

SUMMARY AND CONCLUSIONS

This chapter presents a summary of the findings of this research project as regards the two main objectives of the study. Based on the findings, the chapter gives some recommendations on how the firms can further improve their strategic responses as the environment keeps on changing. The limitations of the study are then discussed and the chapter ends with suggestions of the areas for further research.

5.1 SUMMARY

The liberalisation of the motor industry means that the firms in the industry are operating in a competitive environment. In an effort to be successful, the motor vehicle franchise holders in Kenya have made a number of strategic changes in their internal dimensions.

The firms have made changes in the principal components of their missions. Most of the changes relating to various improvements have been made in the firms' principal technologies so as to make competitive products, hence changes in their basic products by adding unique features. There are also attempts to penetrate new markets and changes in company philosophies, all of which are aimed at serving the customers better and increasing sales.

The firms have also made changes in their prioritisation/ranking of their goals. Unlike in the past, before liberalisation, when growth and/or profitability were ranked first, survival is now definitely the most important goal followed by growth and

profitability. as are now welcome and efforts are now made to improve communication

The company objectives which are now ranked to be very important by the firms are technological leadership, competitive position, productivity and profitability. In the past, before liberalisation profitability was ranked to be the most important objective. survive in the competitive environment. Various strategies have generally

The firms have also made changes in their policies. The policy that has been changed by almost all the companies as can be seen from Table E is the marketing policy in that the firms are now aggressively marketing their products than before the industry was liberalised. The other policies which have been changed by most firms are personnel policy in which the firms have changed their recruitment and development policies. They now go for highly skilled personnel and invest more in training and development programs. Financial polices have also been changed by most firms which are now more strict in their financial planning and management. In their purchasing policies, most of the firms have shifted the sources of their inputs to cheaper sources with most of them substituting imported for local inputs. customer

The firms now invest more in research and development so as to enable them monitor the environment for faster adjustment to environmental changes. The operating policies have been tightened more so as to ensure efficiency and effectiveness. been given to efforts to identify the needs of the various segments of the

In their efforts to respond adequately to the competition, the firms have also made changes in their planning. Before liberalisation in most firms, planning was done by top managers, but now the junior/low level staff are also involved in planning in

that their ideas are now welcome and efforts are now made to improve communication in the organisations. Interactions are now more regular than before to review the plans to reflect any changes in the environment.

The franchise holders have also made adjustments in strategic variables in their attempt to survive in the competitive environment. Various strategies have generally been adjusted significantly or moderately. The most adjusted strategic variables were product, promotion, cost structures, research and development, and market predispositions.

The companies have significantly adjusted the product strategies by considerably adjusting the strategies to differentiate their products, doing extensive promotion, adopting cost structure strategies which include change of input sourcing to cheaper sources, increased efficiency in their operations, capital investment in information technology and increased co-ordination of activities and information exchange across the various departments/activities.

Most firms have also increased investment in research to identify customer needs and gather information on competitors' activities. Training and development have also been increased to improve the skills of their personnel.

Market predisposition strategies have on average been adjusted. Much attention has been given to efforts to identify the needs of the various segments of the market and development of models that satisfy the needs.

5.2 CONCLUSIONS AND RECOMMENDATIONS

The firms have generally made substantial adjustments in their strategic variables in order to survive in the competitive environment. The adjustments are in order.

However, as observed by Ndii (1997), the franchise holders could compete effectively, with the importation of second hand and reconditioned vehicles, by customizing second hand cars for the domestic market exactly the same way they customize locally assembled cars.

Organisations face continued changing environments, thus it is important for managers of the franchise holders to understand that for their organisations to avoid falling victims of strategic problems as a result of maladjustment to their environments, it is important to understand that since important organisational environments are those which are created through a process of attention, an organisation responds only to what it perceives. Those things that are not noticed do not affect the organisation's decisions and actions. Further, what it perceived may not be what actually exists. This means that organisational information gathering and processing systems are critical and organisations should understand the need for strategic information systems to scan their environments and gather information systematically and continuously inspite of the complexity of the organisations' environments for effective decision making and for them to be proactive rather than reactive to changes in their environment.

Equally important to note is that since the formulation of strategy is performed at any one time with the future in mind, the organisations' executives must be aware

of those aspects of their organisations' environment which are susceptible to the kind of change that will affect the organisations' future for effective strategic planning.

Otherwise, environmental changes offer an excellent basic investment opportunity and reinvestment climate, at least for the organisational leaders insightful enough to capitalize on their positions.

5.3 LIMITATIONS OF THE STUDY.

1. This study focuses on a broad area of strategic variables of internal dimensions. Due to time constraint, it was not possible to exhaust all the aspects of these strategic variables, hence some relevant aspects may have been left out.
2. The study only focused on how the firms have responded to competition among other environmental factors such as inflation and economic growth rates which have also changed.
3. Not all respondents were interviewed as 50% of the firms were reached using the drop-and-pick-later method. The respondents not interviewed may not have clearly communicated what they meant in the questionnaires. As the researcher was not able to probe them, they may have misinterpreted some questions. Alternatively, they may not have expressed themselves well on paper.

5.4 RECOMMENDATIONS FOR FURTHER RESEARCH.

1. The study focused on the strategic responses of the firms that had established before the liberalisation of the industry, thus leaving out eight franchise holders that had established after the liberalisation. One could carry a similar study on these firms so as to provide a basis of comparing and finding out whether there is a difference in the adjustment on strategies pursued by the firms established before and those which established after the industry was liberalised.
2. The study reveals that the firms have responded by making some adjustments in their strategic variables. The firms have adjusted their strategies to different levels. Research should be carried out to find out if there are any constraints that the firms face in their response to environmental changes.

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APPENDIX A

"America's Cars Makers - Togetherness".

Number of Second-hand and recond January 16th - 22nd 1993. p. 67. 1993

Year	Number
1991	2,629
1992	3,998
1993	5,872
1994	7,848
1995	6,830

Provisional

Sources: KMI and Kenya, Republic of Kenya, Statistical Abstract, Central Bureau of Statistics (1996).

APPENDIX B

APPENDICES

APPENDIX A

Number of Second-hand and reconditioned vehicles imported 1992-1994.

<u>Year</u>	<u>Number</u>
1991	2,629
1992	3,998
1993	5,872
1994	7,848
1995*	6,830

7. General Motors

* Provisional

9. Kamsons Motors

Sources: KMI and Kenya, Republic of Kenya, Statistical Abstract, Central Bureau of Statistics (1996).

12. Marshall's (P.A.) Ltd

13. Mashariki Motors

14. Ryce Motors

15. Simba Colt Motors Ltd.

16. Suang Yong Motors

17. Tehring Cars Ltd

18. Toyota Kenya Ltd

Source: AA (K) (1997)

APPENDIX B

Motor vehicle Franchise holders in Kenya as at March 1996

1. Amazon Motors Ltd
2. Bruce Motors
3. C.M.C Motors
4. D.T. Dobie
5. Doughty Ltd
6. E.C.T.A Kenya Ltd
7. General Motors
8. Hyundai Motors (K) Ltd
9. Kamsons Motors
10. Kenya Motors
11. Kingsway Motors
12. Marshalls (E.A) Ltd
13. Mashariki Motors
14. Ryce Motors
15. Simba Colt Motors Ltd
16. Ssang Yong Motors
17. Touring Cars Ltd
18. Toyota Kenya Ltd

Source: AA (K) (1997)

APPENDIX C

Motor Vehicle Franchise holders established in Kenya before 1991.

	1990	1991	1992	1993	1994	1995	1996
PATHEMOTORCARE	2,685	2,679	2,745	1,400	2,412	3,430	4,328
PICKUPS	2,729	2,885	2,328	1,334	1,872	2,757	3,174
1. Amazon Motors Ltd	1,130	1,203	1,045	445	951	1,504	1,825
2. C.M.C. Motors	417	451	472	282	718	6,445	1,845
3. D.T Dobie	1,294	838	819	287	718	878	1,038
4. E.C.T.A. Kenya Ltd	472	877	384	249	385	748	877
5. General Motors	804	984	501	225	514	550	412
6. Marshals (E.A.) Ltd					65	118	102
7. Mashariki Motors							
8. Ryce Motors							
9. Simba Colt Motors Ltd							
10. Toyota Kenya Ltd							
TOTAL	13,812	9,482	8,395	8,898	7,413	12,993	18,839
				12	12	10	15
					50	58	21
					3	1	
		6	2		2	98	26
					23	102	71
						20	
						424	350
					8	16	15
	215	215	222	139	83	59	27
					8	110	85
		37	20	43	29	42	51
		24	11	1	8	34	193
	318	125	85	20	18	51	92
					473	48	409
	8,305	1,632	1,550	708	1,180	1,692	2,812
					110	129	160
	383	106	162	188	214	312	370
	21	41	39	21	8	0	
				7	209	280	293
	319	587	649	126	138	380	544
	28	28	2	38	125	320	385
	8	5	10	17	18	2	1
	1,458	1,711	1,587	837	785	1,151	1,885
							315
	2,211	1,645	1,787	781	1,008	1,508	1,633
	229	185	210	97	182	251	263
	49	18	5		14	12	7
		24	119	179	85	85	81
	2,518	1,055	915	809	857	1,312	1,148
					12	0	1
					4	12	28
						83	25
						7	15
							27
	105	80	88	85	88	27	84
	339	339	287	352	147	162	230
		8	28	121	427	591	888
	2,590	1,272	1,108	246	255	1,790	1,531
	10	17	9	2	5	111	1,128
	79	29			71	27	85
TOTAL	13,812	9,482	8,395	8,898	7,413	12,993	18,839

Source: AA (K) (1997)

KMI ANNUAL VEHICLE SALES STATISTICS (1990 - 1996)

	1990	1991	1992	1993	1994	1995	1996
PASSENGER CARS	4,580	2,802	2,743	1,400	2,417	4,050	4,228
PICKUPS	3,719	2,945	2,328	1,304	1,677	2,797	3,174
LIGHT TRUCKS	1,130	1,363	1,044	495	921	1,504	1,975
HEAVY TRUCKS	1,417	561	477	352	716	1,446	1,045
4WD ESTATES	1,364	856	688	337	718	879	1,036
OTHER BUSES	472	377	484	340	385	748	677
MINI BUSES	894	559	601	298	514	550	412
DOUBLE CABS	-	-	-	-	65	119	107
TOTAL	13,582	9,463	8,365	4,592	7,413	12,093	12,654
ASHOK			-	12	19	10	15
ASIA					56	58	21
AUDI					3	1	-
BEDFORD		5	2		2	99	36
BMW					33	102	71
CHEVROLET						30	-
DAEWOO						424	356
DAF					9	18	15
DAIHATSU	223	213	222	138	89	59	77
DFM						95	110
EICHER					8	110	85
FIAT AUTO	125	67	60	43	26	42	51
FIAT IVECO	22	20	11	1	8	38	151
HINO	49	15	20	14	41	40	28
HONDA	112	105	95	36	16	51	62
HYUNDAI					479	454	459
ISUZU	2,109	1,582	1,559	708	1,182	1,867	2,016
KIA					116	129	166
LAND ROVER	689	100	152	158	214	312	370
LEYLAND DAF	31	41	39	51	8	-	-
MARUTI		-	-	7	209	380	263
MAZDA	814	597	449	126	166	380	544
MERCEDES	39	32	2	36	125	323	388
MINI MOKE	8	5	16	17	18	2	1
MITSUBISHI	1,558	1,711	1,052	537	755	1,151	1,053
MITSUBISHI FUSO		-					319
NISSAN DATSUN	2,511	1,848	1,767	781	1,060	1,565	1,665
NISSAN UD	239	185	210	97	142	251	265
NIVA	10	16	5		14	13	7
OPEL		24	199	172	63	85	89
PEUGEOT	1,919	1,085	955	569	957	1,312	1,146
PROTON					17	6	1
RANGE ROVER					4	12	20
RENAULT						93	45
SAHAYI						7	19
SSANGYONG							57
SUBARU	106	90	89	38	68	27	64
SUZUKI	339	390	267	162	117	163	250
TATA		3	36	137	427	501	209
TOYOTA	2,590	1,273	1,108	746	945	1,733	1,937
VOLVO	10	17	6	2	5	111	128
VW	73	33	44	4	14	39	95
TOTAL	13,582	9,463	8,365	4,592	7,413	12,093	12,654

APPENDIX E

INTRODUCTORY LETTER



UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE
MBA — PROGRAMME

LOWER KABETE CAMPUS

Telephone: 732160 Ext. 225
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P.O. Box 30197
Nairobi, Kenya.

April 17, 1997

INTRODUCTORY LETTER: MR. HENRY KIMWOMI KOMBO

MR. HENRY K. KOMBO is a Masters student in the Faculty of Commerce, University of Nairobi. In partial fulfilment of the requirements of the Masters in Business and Administration (MBA) degree, he is conducting a study on "COMPETITIVE RESPONSES BY FIRMS FACING CHANGED ENVIRONMENTAL CONDITIONS - A STUDY OF MOTOR VEHICLE FRANCHISE HOLDERS IN KENYA.

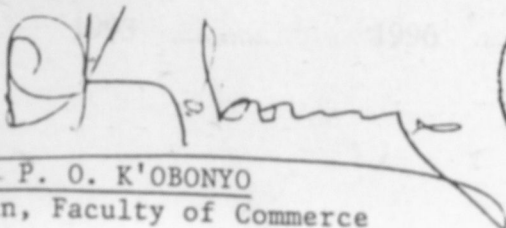
Your organization/firm has been selected to form part of this study. To this end, we kindly request your assistance in completing the questionnaire which forms an integral part of the research project. Mr. Kombo will be responsible for the administration of the questionnaire. Any additional information you might feel necessary for this study is welcome.

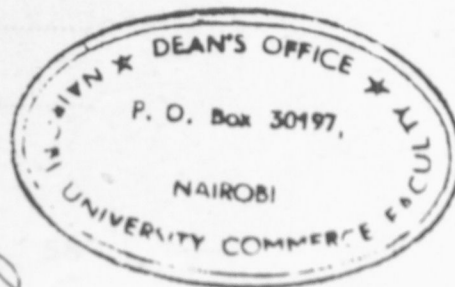
The information and data required is needed for academic purposes and will be treated in strict confidence. A copy of the research project will be made available to your organization/firm upon request.

Your cooperation will be highly appreciated.

Thank you.

Yours sincerely,


DR. P. O. K'OBONYO
Dean, Faculty of Commerce



cc: MBA Co-ordinator
Chairman, Dept. of Business Admin.

APPENDIX F

QUESTIONNAIRE

SECTION I:

1. Year when the company started operations in Kenya
 Yes () No ()

2. Please name the (models) your company sells in Kenya.
 () No ()
 () No ()

3. Markets served (tick one) please explain the change
 - a) Domestic markets only
 - b) Foreign markets only
 - c) Domestic and foreign markets

4. Describe the competition your company faces (tick one) importance (from the
 Very stiff (least important) in your firm before and after liberalisation of the
 Fairly stiff

5. Please indicate the respective sales of your company in units for the last six
 years:

1991	1994
1992	1995
1993	1996

SECTION II:

1. Please indicate whether competition has led to a change in any of the following components of your company's mission:

Basic product	Yes ()	No ()
Primary market	Yes ()	No ()
Principal market	Yes ()	No ()
Company market	Yes ()	No ()

If yes in any of the above, please explain the change

.....

.....

2. Among the following goals, please indicate the order of importance (from the most to the least important) in your firm before and after liberalisation of the industry.

- (i) Survival
- (ii) Growth
- (iii) Profitability
- Other Goal

Before liberalisation

After liberalisation

3. Among the following objectives, please indicate the order of importance (from the most to the least important) in your firm before and after liberalisation of the industry.

- | | | | |
|-------|------------------------|---------|--------|
| | Personnel policy | Yes () | No () |
| (i) | Profitability | Yes () | No () |
| (ii) | Return on investment | Yes () | No () |
| (iii) | Competitive position | Yes () | No () |
| (iv) | Technological position | | |
| (v) | Productivity | Yes () | No () |
| (vi) | Employee relation | Yes () | No () |
| (vii) | Employee development | | |

Before liberalisation

After liberalisation

5. Please indicate whether there has been a change in planning in your company in response to competition. If Yes (for example changes in participation in planning and review of the plans), please explain.

4. Please indicate whether there has been a change in any of the following policies in response to competition.

- | | | | |
|-------|------------------------------------|---------|--------|
| (i) | Personnel policy | Yes () | No () |
| (ii) | Purchasing policy | Yes () | No () |
| (iii) | Financial policy | Yes () | No () |
| (iv) | Marketing policy | Yes () | No () |
| (v) | Research and
Development policy | Yes () | No () |
| (vi) | Operating policy | Yes () | No () |

If yes, in any of the above, please explain the change

.....
.....

5. Please indicate whether there has been a change in planning in your company in response to competition. If Yes (for example changes in participation in planning and review of the plans), please explain.

.....

SECTION III:

1. For each of the following competitive responses, please tick (✓) only one of the respective numbers to indicate (as per the key) what adjustments have been adopted in response to competition.

KEY

- 1 = Very much increased
 2 = Moderately increased
 3 = Not changed
 4 = Moderately decreased
 5 = Very much decreased

A PRODUCT		1	2	3	4	5
1.	Improvement of model quality standard	()	()	()	()	()
2.	Introduction of new models	()	()	()	()	()
3.	Introduction of unique model features	()	()	()	()	()
4.	Offering of after-sales services	()	()	()	()	()

B	PRICE	1	2	3	4	5
1.	Giving generous price discounts	()	()	()	()	()
2.	Charging low prices to increase sales volume	()	()	()	()	()
3.	Setting low prices to enhance product volume	()	()	()	()	()
4.	Setting high prices to enhance product image	()	()	()	()	()
5.	Use of credit facilities	()	()	()	()	()
	Staff retrenchment	()	()	()	()	()
C.	PROMOTION	1	2	3	4	5
1.	Advertising expenditure	()	()	()	()	()
2.	Emphasizing on model suitability to local conditions in advertisements	()	()	()	()	()
3.	Use of various advertising media	()	()	()	()	()
D.	DISTRIBUTION	1	2	3	4	5
1.	Use of various distribution channels	()	()	()	()	()

2. Opening of branches at
strategic areas () () () () ()

E. COST STRUCTURE

1. Change of input sourcing
- Substitution of
domestic for imported () () () () ()
 - Substitution of
imported for domestic () () () () ()
 - Substitution of
inputs () () () () ()
2. Staff retrenchment () () () () ()
3. Efficiency in operations () () () () ()
4. Improvement in
technology () () () () ()
5. Capital investment in
state of the art equipments
(information technology) () () () () ()
6. Internal co-ordination () () () () ()
7. Information exchange
across activities () () () () ()

G. MARKET PREDISPOSITIONS

F. RESEARCH AND DEVELOPMENT

	1	2	3	4	5
1. Marketing research					
expenditure to identify					
customer needs	()	()	()	()	()
domestic markets	()	()	()	()	()
2. Information on competitors'					
- Product	()	()	()	()	()
- Price	()	()	()	()	()
- Promotion	()	()	()	()	()
- Distribution	()	()	()	()	()
- Production method	()	()	()	()	()
- Other	()	()	()	()	()
3. Investment in training and					
development programs	()	()	()	()	()
4. Hiring of experts/					
Facilitators/Consultants	()	()	()	()	()

G. MARKET PREDISPOSITIONS	1	2	3	4	5
1. Focus on certain market segments	()	()	()	()	()
2. Initiative to seek new domestic markets	()	()	()	()	()
3. Initiative in seeking new foreign market niches	()	()	()	()	()
4. Development of models to suit the budgets of potential customers	()	()	()	()	()
5. Identifying and targeting buyers of your models	()	()	()	()	()