

**THE ROLE OF STRATEGIC GROUPS ON THE PERFORMANCE
OF PRIVATE SECURITY FIRMS IN KENYA**

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DECLARATION

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

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

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DEDICATION

I dedicate this project to my parents John and Elizabeth Maina, for encouraging and supporting my pursuit of education and to my brothers, Tony and Peter, to encourage them to also pursue their life goals with zeal and zest.

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ABSTRACT

Strategic groups are clusters of firms in an industry that have similar strategies on key strategic dimensions and which differ significantly with those of other groups of firms. The groups are affected by the competitive forces in the industry in different ways resulting in the firms in some groups having a potential for higher profitability compared to firms in other groups. The strategy of a firm depends on the bundle of resources the firm possesses which determines the factors that a firm considers to be major hindrance to meeting their business objectives as well as how they respond to market dynamics. Mobility barriers restrict the movement of firms from group to group as well as imitation of strategies of firms in one group by a firm in another group resulting in stability of the group structure. The study sought to find the strategic groups in the private security industry in Kenya and the role they play in the performance of those firms. The study targeted the 30 firms that are members of the Kenya Security Industry Association using a cross sectional census survey. This was done using a structured questionnaire that was administered to operations managers of the firms. 17 firms responded which was a 56.67% response rate. The data was analyzed using clustering and descriptive statistics techniques. The analysis revealed that there are four strategic groups in the private security industry in Kenya characterized by differences in resources and scope of services. Those firms that had higher levels of resources invested were able to have fewer sources of hindrance to meeting their business objective and were also able to respond more robustly to the dynamics in the market. These firms were also able to generate more gross revenues compared to firms that had less invested resources and product scope. The study concluded that strategic group membership plays a role in the performance of firms in the private security industry in Kenya. The author recommends that managers of private security firms should familiarize themselves with the strategic groups in the industry and use the knowledge to formulate their competitive strategies. The author also recommends that government agencies develop policies and regulatory framework with a better understanding of the strategic group structure of the industry. This will enable them find ways and means of eliminating or reducing the hindrances to a more competitive industry.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

A strategic group is a group of companies that have chosen to follow strategies that resemble each other unlike others companies in the same industry according to Porter (1980). The members of such a group tend to have assets that are identical. These firms therefore make choices that are almost the same as they respond to forces in their environment according to Oster (1990). They are thus an important level of study that lies between the competitive forces of the industry as a whole on one hand and the strategy of the individual firm on the other hand according to Short et al (2008).

An important objective of strategic groups study has been to find out why there is a variation in how the companies perform in the same industry as did Cool and Schendel (1987), Feigenbaum and Thomas (1990), Hunt (1972) and Porter (1979). Performance for an organization indicates the how effective and efficient it is in the use of its investments to meet its business objectives according to Daft (2000). According to Richard et al (2009), a firm can measure how it performs by comparing how well it is doing by assessing the financial ratios. It can also do so by comparing revenues generated from the market. The other way is by comparing distributions to owners of stock in the firm. Studies that have attempted to link industry strategic groups and performance include Stouten (2012) study of fleets for fishing that operate in Belgium, Theuvsen et al (2010) on breweries in Germany, Notta (2015) study of the dairy industry in Greece and Xiao (2014) study of pharmaceutical companies in China.

This study is anchored in the Resource Based View and the Dynamic Capabilities theories of strategic management. The former theory links resources that are within the firm to its ability to maintain a superior position relative to its competitors (Kraaijenbrink et al, 2010). The theory was initially explained by Penrose (1959) after noticing a linkage between the resources that a company possesses resulting in its capability to produce and thus grow and perform. According to Barnes and Clark (2007), the resources for production differ from firm to firm even in the same industry. On the other hand, the Dynamic Capabilities theory holds that it is important for the firm to be dynamic in the market (Eisenhardt and Martin, 2000). These capabilities are processes that help the firm to develop and evolve in the face of change in the market. The firms can achieve this by being flexible thus able to adapt (Sanchez, 1995) or by being able to note, absorb and use new outside information to meet their business objectives (Cohen and Levinthal, 1990). The more the firm has these two capabilities the more it can use and modify them in a way that is beneficial to the firm.

The motivation of this study was to enable managers to have a better understanding of their competitive environment particularly the strategic group to which they belong. The managers understanding of their own firm's resource base will help to formulate effective strategies to enhance performance. Furthermore, an understanding of the causes of persistent high or low performance of firms in their industry will help them develop the dynamic capabilities to improve their position in the industry. The study was focused on the private security industry in Kenya.

1.1.1 The Concept of Strategic Groups

This concept states that in a given industry, firms will cluster into groups of firms that have similar strategies and which differ sharply from the strategies adopted by the other clusters of firms (Hunt, 1972; Porter 1979). The concept assumes that in an industry there are a limited number of competitive strategies available to any firm forcing the firms to form clusters around these strategies (Porter, 1980). The concept also assumes that firms that use similar strategies will necessarily have similar resources to enable them execute that strategy. It follows that these firms will tend to have identical scope and resource deployment configurations (Oster, 1990). The concept also assumes that there exist mobility barriers that impede easy change of the group a firm belongs to as well as copying other groups' strategy. It has thus been noted that there is relatively stable strategic group membership (Xiao, 2014; Mascarenhas and Aaker, 1985)

According to the concept, the behavior of firms in a strategic group may result in ruinous rivalry that will erode overall group profitability or they can recognize their mutual dependence and work through group level strategic interactions that will result in enhanced profitability for the group (Smith et al, 1997, Dranove et al, 1998). These interactions result in firms with increased power in the market, more efficient and which are able to differentiate themselves from the other competitors (Dranove et al, 1998). These effects can enable them emerge stronger against the forces that influence competitiveness in the industry. This results in improved profitability of the strategic group (Porter, 1980). Contrary behavior can only result in increased intensity of rivalry among the members resulting in increased exposure to the other competitive forces hence driving down group profitability (Smith et al, 1997).

1.1.2 Organizational Performance

An organization's performance is a measure of how well the firm is doing towards meeting its objectives (Ricardo and Wade, 2001). There are different approaches to measuring organizational performance. Kaplan and Norton came up with the balanced scorecard that can be used to measure the strategic performance of organizations (Kaplan and Norton 1996, 2008). This comprehensive method, is however suitable for measuring individual organizations. Richards et al (2009) came up with a framework whose measures can be used to measure inter-organizations performance levels. The measures are financial, product market and shareholder returns related.

The study utilized the Richards et al (2009) measures of organizational performance. This will be limited to financial measures and market share measures as these two can be easily collected by a data collection tool. The returns to shareholders will be hard to collect as all the firms in the industry are private and may not have such information readily available (Barry, 2011; O'Regan, 2008). Behavior of firms can work to improve financial ratios especially profit margins and return on assets depending on how they work together to avoid price competition and improve product quality, efficiency and differentiation effects.

1.1.3 Private Security Firms in Kenya

These are firms that provide their customers with enhanced security over and above that offered by public agencies. The private security industry in Kenya is rapidly growing, is valued at \$43 million and employs about 50,000 Kenyans in 2004 (Gatoto et al, 2015). The industry fills the gaps that the government may be unable to bridge using their security architecture (Mkutu and Sabala, 2007). There is an estimated over 2,000 companies that operate in the industry although no specific body regulates the

industry nor are there licensing requirements (Thuranira and Munanye, 2013). The government has passed a law that will require licensing and regulation of the industry in 2016 (Securex website, 2016).

A significant share of the market is belongs to a few companies. These are huge multinationals that are able to provide more differentiated services compared to the smaller businesses (Thuranira and Munanye, 2013). The big and medium sized companies mainly utilize differentiation strategies while the small firms which form the bulk majority utilize cost leadership strategies (Bett, 2012; Lekoolool, 2010). The main product lines of these firms include alarm response services, guarding services and cash in transit security services. Few of the firms provide the full product line as the majority offer only guarding services to their customers. With the low entry barriers (Thuranira and Munanye, 2013), differences in differentiation strategies (Bett, 2012, Lekoolool, 2010), and scope of product lines, the author studied the resultant strategic groups in the industry and their effect on firm performance.

1.2 Research Problem

Strategic groups have been found to exist in industries (Dranove et al, 1998). They are a result of initial investments, historical background and common ideology (Oster, 1990). Mobility barriers cause stability in group membership while group level interactions serve to increase group profitability (Cool and Schendel, 1987; Feigenbaum and Thomas, 1990; Katobe and Duhan, 1993).

The private security industry in Kenya has been the focus of many strategic management studies (Oanda 2013; Bett 2012; Nguchu, 2012; Lekoolool 2010 and Okinda, 2008). No study so far had been carried out on the group structure of these firms. The author aimed at filling that knowledge gap. The study sought to investigate

the competitive nature of the private security industry with particular interest on the strategic groups formed by firms in the industry and how they affected performance of the firms.

Studies in Kenya regarding strategic groups have previously been carried out by Njiru (2011) who studied the freight forwarding industry and described the mobility barriers in that industry. Musindi (2008) studied the strategic groups in the oil industry in Kenya and described forces affecting the market shares of the different strategic groups. Notta (2015) studied the strategic groups in the Greek dairy industry based on differentiation and found it correlated with performance of the firms. The present study will use product line breadth to determine strategic groups as it represent a strategic investment that cannot be easily changed by the firm and is a mobility barrier for smaller firms with one product line to bigger firms with the entire product line (Nath and Gruca, 1997).

The study related the strategic groups that arise out of the strategic investments and the hindrances to meeting business objectives (Mascarenhas and Aaker, 1985). The knowledge that came out of the study would be helpful to managers and strategist in these firms as they formulate their strategy. The policy makers in the new body to be established can use the information as they regulate the industry in the coming days (Securex website, 2016). The study thus aimed to answer the question: What is the role that the strategic groups have in relation to the how firms perform in the private security industry?

1.3 Research Objective

The goal of this study was to establish the role that strategic groups have on performance of private security firms in Kenya.

1.4 Value of the Study

The study provides insights to policy makers and regulators of industry regarding the structure of industries and the performance of companies. They will be able to see the relationship between regulations and policies that they formulate and how this affects competition. They will therefore be able to predict the impact of their rules and regulations especially regarding erecting and dismantling mobility barriers. They can use them especially to make industry to be more competitive which will only serve to improve the quality of service or product offering which will be beneficial to all Kenyans.

The study is also valuable to managers and strategists in companies. They will be able to better understand the concept of strategic groups and their effect of performance of companies. This will help them to evaluate where their firms are positioned in their own industries. It will also give them the insights they need to make competitive strategies that they can use to compete more effectively. They will therefore be in a better position to put and develop the right resources for them to compete more favourably at the strategic group of their choices. This is true for managers in all industries and particularly so to those in the private security firms in Kenya.

The study adds to the body of knowledge of strategic management in Kenya. It will help increase the understanding of strategic groups' concept. It will help in linking the strategic groups to companies' performance. It will provide a foundation for further research into the nature of competition particularly regarding industry and group structure as well as firm performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter provided a review of the literature on which the research is based upon. It comprised of the theoretical foundation as well as the empirical literature. The theoretical foundation focused on the theories of the study including strategic groups, Resource Based View and the Dynamic Capabilities theories. The empirical literature will focus on findings that have been a result of empirical research on strategic groups and performance of firms.

2.2 Theoretical Foundations

A study's theoretical foundation is a lens through which to see from the researcher's point of view. Kilbourn (2006) concluded that it aids to interpret the data in the study. It thus helps to provide boundaries especially for collection of data for the study. This study is anchored on the Strategic Groups, Resource Based View and Dynamic Capabilities theories.

2.2.1 Theory of Strategic Groups

According to Porter (1980), Newman (1973) and Hunt (1972), firms in an industry form a strategic group when they implement strategies that are similar on important dimensions of strategy and which differ greatly with the strategies of other firms in same industry. Porter (1980) adds that on one extreme there could be only one strategic group when all firms applied identical strategies while on the other extreme, each firm could have a unique strategy such that each firm is a strategic group. It is however rare to find such extreme scenarios occurring in an industry. Generally, firms in an industry tend to follow a limited number of strategies and therefore resulting in a few strategic groups in any industry (Porter, 1980).

Strategic group theory assumes that firms are heterogeneous bundles of resources (Oster, 1990). In making strategic decisions, some firms may have similar strategies in approaching the market, in supply characteristics or in their infrastructure. This implies that firms pursuing similar strategies will have similar resource configurations or scope and resource deployment. These similarities in resource configurations will give rise to structural forces that bar firms from free movement amongst groups adopting different strategies as well as the successful imitation of strategies of one group by another group. This movement is deterred by the fact that potential entrant to the group will require to make investments already made by existing group members resulting in cost disadvantages and elapsing of time before the investment pays off (Mascarenhas and Aaker, 1985). There is also the risk that the investment may not achieve the intended objective and uncertainty in the retaliation by incumbent group members on the perceived threat to the erosion of their profitability. Therefore firms will have little incentive to change their strategic positioning unless they believe they can surmount the mobility barriers successfully and the expected payoff will be worth the effort. This results in stable group structures.

The theory suggests that the behavior of firms in a group can enhance or erode group profitability (Porter, 1980). This can be achieved by raising the mobility barriers to reduce the threat of potential new entrants into the strategic group and thus avoid erosion of profitability. The firms can interact at the group level to counter the effects of the threat of the other four competitive forces. This is achieved by obtaining improved power of the firms in the market, the firms becoming more efficient as well as being able to differentiate their offerings compared to competitors (Dranove et al ,1998).The degree to which the behavior of firms in a strategic group can avoid injurious rivalry and work together depends on their recognition of mutual

dependency. It is also determined by how many competitors there are in the group, how different the strategies are from each other as well as their market interdependency. Strategic groups that are best able to maintain high mobility barriers and have few members will be able to reduce rivalry and increase strategic interactions and thus will be the most profitable while those that have low mobility barriers and many members will experience intense rivalry and will result in erosion of profitability (Porter, 1980).

The existence of strategic groups was questioned by Barney and Hoskisson (1990). They claimed that the clustering methods used by researchers will always produce clusters. This was just after Harrigan (1985) defended the reliability of clustering methods to produce strategic groups. The cognitive perspective of strategic groups developed by Reger and Huff (1993) provides a mental models support for the theory. A comprehensive study by Nath and Gruca (1997) concluded that the different ways of coming up with strategic groups provided identical results. Several researchers have continued to show that strategic groups aid in understanding competitive behavior and strategic formulation (Xiao, 2015; Stouten, 2012; Njiru, 2011; Musindi, 2008; Theuvsen, 2010; Notta, 2015).

A good understanding of strategic groups will enable managers to make better conclusions concerning the competitive environment of the industry that they operate in or intend to enter. They will have the benefit of awareness of the causes of perennial profitability in the industry. They will also know what is required for them to perform better in their current strategic group, to reposition into another strategic group or to make entry decisions for the potential new entrant into the industry (McNamara, 2002).

2.2.2 The Resource Based View Theory

The resource based view theory suggests that the resources within the firm determine its ability to attain a competitive advantage that is sustainable (Kraaijenbrink et al, 2010). This implies that competitors have different set of resources. If these resources are imperfectly mobile the differences will not be easy to change (Mahoney and Pandian, 1997). These resources can provide a firm with a competitive advantage that is persistent. This can arise where the firm's resources cannot be easily imitated or substituted, they cannot be easily identified by competitors and further they must provide synergy to the firm (Barney, 1991).

According to the theory, a firm's competitive advantage comes from the firm's ability to bring together and use the right mix of inputs in making the final outputs. The combination of these inputs has an ability to achieve a given level of performance. This means that each firm's unique inputs and abilities give it a foundation for its strategy and making its returns. The core competencies described by Prahalad and Hamel (1990) are about how the firm can gain and pile up additional abilities so that the business can be in a position to perform better than rivals. Crook (2008) suggested that the unique inputs and abilities described account for the differences in performance more than how the industry has been structured. To summarize, according to Warnerfelt (1984), how valuable the resources of the firm are, how rare they are, how difficult they are to imitate and the degree to which they can be substituted determines the kinds of markets it can enter as well as how much profits the firm can make.

2.2.3 The Dynamic Capabilities Theory

The dynamic capabilities theory extends the resource based theory approach to a dynamic environment (Winter, 2003). According to Teece et al (1997), dynamic is the ability for a firm to change in sync with its business environment. This means that the firm's competencies are in line with the requirements of the market at all times. These dynamic capabilities are more about the processes that the firm uses with its resources so that they are in line with the changing market environment (Eisenhardt and Martin, 2000).

A firm's dynamic capability is the propensity of that firm to realign the resources and abilities at its disposal so as to obtain a better competitive position in the long run (Carmeli and Tishler, 2004; Teece et al 1997). Zott (2003) investigated variations in performance of firms within an industry from the perspective of dynamic capabilities. He concluded that having identical dynamic capabilities like other firms was not adequate. There are other factors involved that also influenced the resulting performance such as proper timing, the costs involved and the experience curve effects for the firm. According to Winter (2003), a firm's management is in a position to determine and handle change and therefore help the firm to develop the necessary dynamic capabilities that the firm requires. Ethiraj et al (2005) found that for a capability to help the firm maintain a competitive position for the firm it must not be easily transferred or substitutable to a competitor. This means that the firm should develop a hard to copy mix of resources as concluded by Griffith and Harvey (2001). A firm that plans to get better performance in the long run must develop dynamic capabilities to help it keep up with the state of the art and avoid becoming obsolete and in danger of exiting the industry.

2.3 Mobility Barriers and Strategic Groups

Strategic groups exist because there are forces that ensure that firms stick to their groups and don't easily shift to the others (Caves and Porter, 1977, Porter, 1979). These forces are called mobility barriers and they ensure that groups maintain their differences in performance. They include resource commitments already made by existing members. This means that any aspiring new member must invest in the same resources. This results in disadvantages in terms of the cost of the investment as well as time before the investment makes the desired returns. There is also further uncertainty as to whether the investments will really payoff as well as the uncertainty of the reaction of the existing firms in the group (McGee and Thomas, 1986).

According to Hatten and Hatten (1987), these forces can provide the firms in a group an advantage over the other firms in other groups. They therefore can provide a competitive advantage. Mobility barriers can be identified through differentiation related differences, cost related differences and process related differences (Caves and Ghemawat, 1992). These differences which arise out of fixed factors such as pre-commitments to durable, specialized sticky resources can result in sustained intra-industry profit differentials. They asserted that empirical analysis of causes of performance differences of firms should start with the identification of these mobility barriers, the heterogenous bundles of fixed factors that rivals bring in competing with each other.

2.4 Firm Behavior and Strategic Groups

Firm behavior both influences and is influenced by the strategic group to which it belongs (Dranove, et al 1998). The main ways in which firm behavior is influenced include intensity of rivalry, recognition of mutual dependency thus anticipating each

other's actions and reactions, (Porter, 1979), the reference group effects (Feigenbaum and Thomas, 1995), effects of strategic interactions (Dranove, et al 1998). The firms are therefore likely to be influenced by the strategic group and the behavior of individual firms depends on the characteristics of the strategic group in question (Feigenbaum and Thomas, 1995; Schimmer and Brauer, 2012). Increased rivalry results in declining group profitability (Cool and Dierickx, 1993).

Empirical studies have shown that those companies belonging to the same group exhibit high similarities in their strategic behavior. According to Njiru (2011) the companies that are in the different strategic groups in freight forwarding industry Kenya have distinct behaviors. Musindi (2008) had the same findings of the oil industry in Kenya. . Stouten et al (2012) found that firms in the Belgian fish fleet strategic groups has similar resource configurations. Notta (2015) found that firms in the Greek dairy industry had similarities in differentiation behavior in terms of advertising.

2.5 Strategic Groups and Firm Performance

Empirical investigations on the role of strategic group's effect on performance have produced inconsistent results. A detailed list of these studies and their outcomes can be found in McGee and Thomas (1986), Reger and Huff (1993) and Thomas and Venkatraman (1988). In Musindi (2008) study of oil industry, he showed that oil marketers in one strategic group controlled over 74% of the market share .The majority of the firms, however, had a combined market share of 5% indicating that a strategic group can have a dominant control of the market.

Firms in the well protected groups can achieve higher margins and return on assets implying that the firms of the group are able to achieve higher performance. The vulnerable groups tend to struggle with lower margins in order to stay in business (Porter, 1980). In the product market measures, the strategic group can help the firm to grow its product market profitably. Differentiation effects result in better and profitable product market share growth compared to cost leadership (Caves and Ghemawat, 1992). The firms in well protected groups are likely to have interactions that help improve their market power, efficiency and differentiation effects resulting in better market share unlike struggling groups who may compete on price and only grow market share at the expense their margins. The differentiation effects like better reputation and better developed brands that can result in improved market share as better quality, more reliable firms (Njiru, 2011).

2.6 Critique of Existing Literature

Most of the studies cited in the theoretical foundations above have an empirical component. Factor and cluster analysis was favored in the earlier research. These methods were however criticized by Barney and Hoskisson (1990) due to the fact that the work of cluster analysis to produce clusters. They described the results of the studies as an artifact of the methodology used and called them an analytical convenience. Reger and Huff (1993) however showed that these groups play a role in the mind of managers in their cognitive view of strategic groups. Other methods have been advocated to analyze industries for strategic groups such as multidimensional scaling by DeSarbo (2009). Longitudinal studies have shown that these groups are stable over time by Cool and Schendel (1987) in their twenty year long study of the insurance industry.

A challenging aspect of studying strategic groups has been the issue of the right variables to use while studying a given industry. It is generally agreed that there must be an intimate knowledge of the industry under study in order to know what variables to be used. According to Reger and Huff (1993) the research should commence by examining whether there are groups of rivals in the minds of the managers. Early studies were inconsistent in linking strategic groups with differences in how they performed; however recent studies using more advanced methodology consistently show performance differences in the strategic groups that were identified. Profiling of the groups formed helps to explain the differences in group structures and the resulting performance differences of these groups. There is also identification of the mobility barriers that limit imitation of strategies between groups.

According to McGee and Thomas (1986), firms should be grouped by assessing their strategies. Those that are identical should be together. There should be maximum distance on how the groups differ. Mascarenhas and Aaker (1989) suggest that mobility barriers be used to identify the groups. They reason that these barriers are due to resources of the firm. These resources are selected as they fit the strategy selected by the firm. The mobility barriers identified should be checked for their relationship with the industry driving forces as well as performance.

There has been conflicting results on empirical results on whether strategic groups affect firm performance. Studies that supported strategic performance had an influence on firm performance include Cool and Schendel (1988) who attribute performance variation to historical differences within each strategic group. Mascarenhas and Aaker (1989) identified strategic groups that had stability over time and explained differences on how they performed. Fiegenbaum and Thomas (1989) had

the same conclusions, adding that the actual number and specific members in each group can change in the long run. Other studies did not find such a linkage. They include Schendel and Cool (1987) that only found performance differences in market share but not in profitability. Lewis and Thomas (1990) concluded that the groups can be used to assess the structure of an industry and the strategies used to compete. They however also concluded that the groups do not always account variation in performance of firms.

According to Dranove et al (1998), it is very important to avoid confusing the effects of the different levels of analysis. These are the firm, group and industry levels. The influence of firm and group should be controlled. This will enable data collection and proper methodologies that ensure conformity to the proper level of analysis. Hatten and Hatten (1987) concluded that instead of searching for effects at the level of the group, it would be more suitable to find what is common at the level of the firm especially where data of sufficient detail cannot be obtained. They however state that it's important to intimately know the theory behind the effects at the group level in order to avoid confusing them with those at the level of the firm.

2.7 Summary of Research Gaps

Strategic group research in Kenya has been conducted on two occasions previously. Musindi (2008) concluded that there exist five strategic groups in the oil industry. The dominant group had 6 companies that controlled 74 % of the market share while the least protected group with a majority of the companies had a combined 5% of the market share and was the easiest for any potential new entrant to enter with low entry barriers. Njiru (2011) also identified five groups in the freight forwarding industry. He then gave a description of the mobility barriers that are in the industry.

The competitive strategies used by firms in the private security industry have been studied by Lekool (2010) and Bett (2012). They both concluded that size is the main determinant of strategy in the private security industry in Kenya. Their studies showed that larger firms and mid-sized firms favored differentiation and focus strategies providing their customers with higher quality offerings for which they charged higher prices. Small firms, on the other hand, did not differentiate their offerings and competed on lower prices.

The present study focused on the competitive nature of the private security industry which had not been studied previously. It focused on establishing the strategic groups that are formed by the private security companies. It attempted to find out the mobility barriers as well as the behavior of the firms that are influenced by strategic group membership and which affected profitability. It concluded by trying to observe the average performance of firms in these groups by comparing gross revenues to establish whether the theory of strategic groups is validated by our research.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was used to conduct this study. The chapter describes the research design and the population of the study. It also describes the data collection procedures that were used including the data collection instrument as well as the reliability and validity tests of the instrument. It finally concludes by describing how the data was analyzed.

3.2 Research Design

The research design was a descriptive cross-sectional census survey design. The design was appropriate since the study was largely descriptive and was to be done within a short period of time. The data was collected at only one point in time. This enabled the researcher to capture the characteristics of the population.

The design was appropriate for this study considering the scope and nature of data that was collected. It was also suitable for the type of analysis that was performed. The study collected descriptive data. The data was subjected to statistical analysis.

3.3 Population of the Study

The population of the study was the 30 firms that are members of Kenya Security Industry Associations (KSIA). The list of members is available on their website www.Ksia.co.ke/members-list. The firms that were included in the study were the members of the association as at 16th September 2016. Other firms were excluded from study as it was difficult to contact them for the study. The selected firms were easy to get contacts due to their membership of the association. The researcher used the contacts on the website to get in touch with the firms for the study.

It was also in the opinion of the author that the selected firms were representative of the diversity of strategies adopted in the industry. These firms also had the majority of the market share in the industry. The researcher was of the opinion that the excluded firms shared the same characteristics as selected firms. The excluded firms therefore would not impact adversely of the goal of the study.

3.4 Data Collection Procedures

3.4.1 Data Collection Instrument

The study utilized primary data. The questionnaire captured data that was useful in the determination of strategic groups. The questionnaire aimed to capture data that was descriptive in nature. Questionnaires are, according to Gall et al (1996), the most suitable for such studies because they are able to get information regarding the perceptions of the respondents. Using a questionnaire is also economical in terms of the time and resources required.

The respondents were given statements which they would rate on a scale according to how best it described their firm's situation. It was divided into three sections. Section A collected data on the general characteristics of the firms. Section B collected data on the nature of the strategic group of the firms while section C collected data on the measure of organizational performance. The questionnaire was administered by drop and pick later method. The questionnaire was targeted to the operations managers of the respondent firms. Telephone calls were made to follow up on completion of the questionnaire so that the researcher could collect them.

3.4.2 Validity and Reliability Tests

According to Cooper and Schindler (2006), an instrument passes the validity test if it can measure as it is required to. The findings we get from a research that passes this test ought to give conclusions that are accurate. An instrument that has good validity should contain material that represents the entire topic being studied. In this study, the author reviewed the literature thoroughly so as to develop questions that would capture all aspects necessary to ensure that it had content validity.

According to Cooper and Schindler (2006), an instrument passes the reliability test if it is able to give consistent results. The internal consistency of the instrument is good if various questions measuring the same construct provide similar results. Cronbach's alpha was used to determine internal consistency as it is the most suitable where there are multiples in the rating scale. Only those constructs that met Nunnally (1978) recommendation of 0.7 underwent further analysis.

3.5 Data Analysis

After the data was collected, the filled in and returned questionnaires were edited. The editing made sure that the data collected was complete. Internal consistency for the constructs was also checked. The data was then coded and entered into a Statistical Packages for Social Sciences (SPSS) software for analysis. The analysis conducted included descriptive statistics and two step cluster analysis. Two step cluster analysis was conducted to identify the clusters which are the strategic groups that arise out of the data. This method has been used in recent studies involving strategic groups by Notta (2015) and Johnson et al (2011). It is convenient as the researcher conducts one comprehensive analysis instead of the factor analysis and cluster analysis successively.

Descriptive statistics involved the use of frequencies in their absolute and relative forms (percentages); mean and standard deviation were used as measures of central tendencies and dispersion respectively. The mean captured the general perceptions of the respondents while the standard deviation showed the consistency of the responses. Frequency tables were used for arraying data obtained in order to facilitate working out percentages in order to address the sole objective of the study. Percentages revealed the proportion of different attributes being studied for relative comparison. Rank ordering helped the researcher to rank different attributes in the order of their representation to equally address the objective of the study. This method had been previously used in a similar study by Njiru (2011), and Musindi (2008).

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study based on the data collected from the field. The data was checked for completeness and validity. The data was then coded and entered into a Statistical Package for Social Sciences (SPSS) software for analysis. The data was analyzed for cluster analysis and descriptive statistics. The two-step cluster analysis produced groups of firms with similarities and differences in characteristics. Descriptive statistics involved frequency tables which were arrayed to aid in working out percentages. The percentages showed the proportions of different attributes studied for relative comparison.

4.2 Response Rate

The study was targeted at the 30 firms that are members of the Kenya Security Industry Association. 17 firms returned completed questionnaires. This was a 56.67% response rate. This was considered sufficient to proceed with the analysis of the data.

4.2.1 Demographics of the Industry

This section compared the nature of the companies that responded to our questionnaire. The items that were looked at included the ownership of the firms, the length of time a firm has been in existence and the size of the firm that was proxies using the number of employees the firm had. This was considered important information as it has an impact on the strategies that a firm adopted as is discussed in the sections that follow.

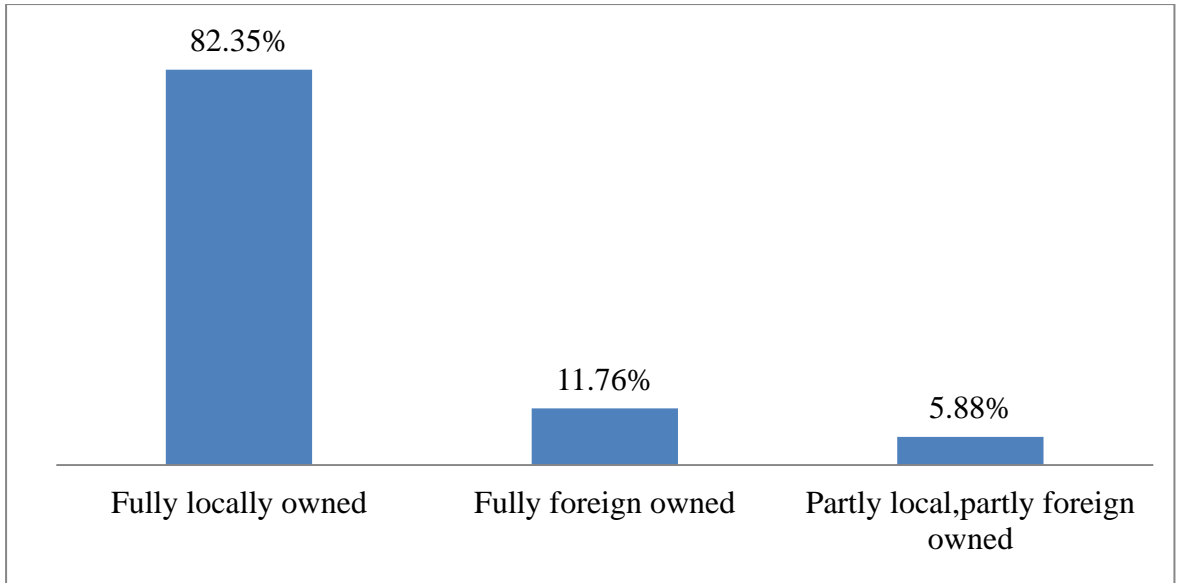


Figure 4.1: Ownership of firms. Research data (2016)

The survey results in Figure 4.1 indicate that a majority of the firms in the private security industry in Kenya are local companies. It is worth noting that the few multinational companies operating in the industry are much bigger companies with more employees and bigger revenues compared to the many smaller local companies.

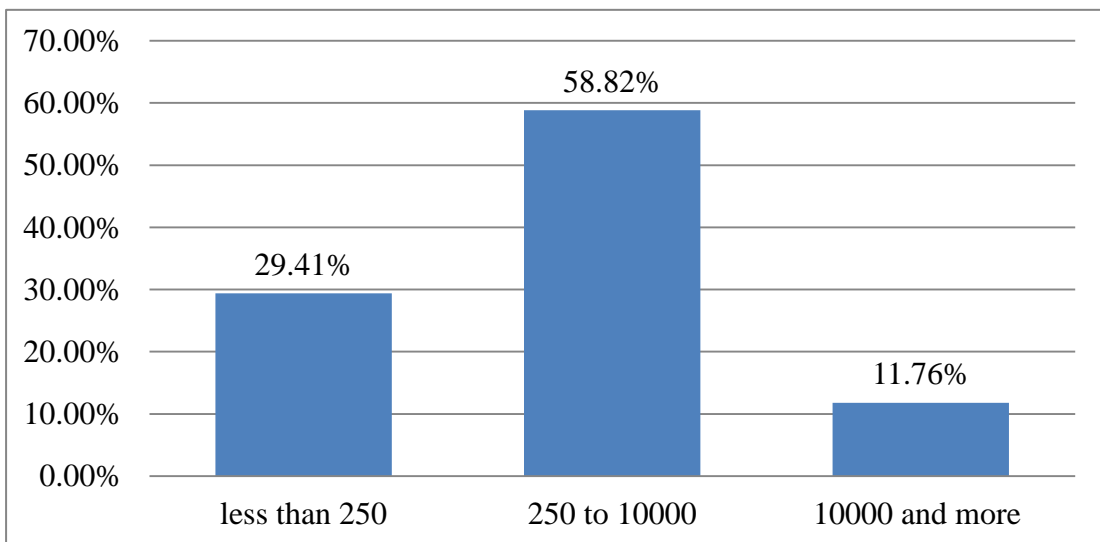


Figure 4. 2: Number of Employees. Research data (2016)

Figure 4.2 reveals that majority of the firms at 58.82% have between 250 and 10,000 employees. 29.41% have less than 250 while 11.76% have more than 10,000 staff. The firms that have less than 250 staff are mainly those companies that focus on security technology services as these are not labour intensive firms. The firms with other 10,000 employees are the firms that are well diversified in product line breadth and have a large market share of the guarding services business thus requiring a huge personnel numbers.

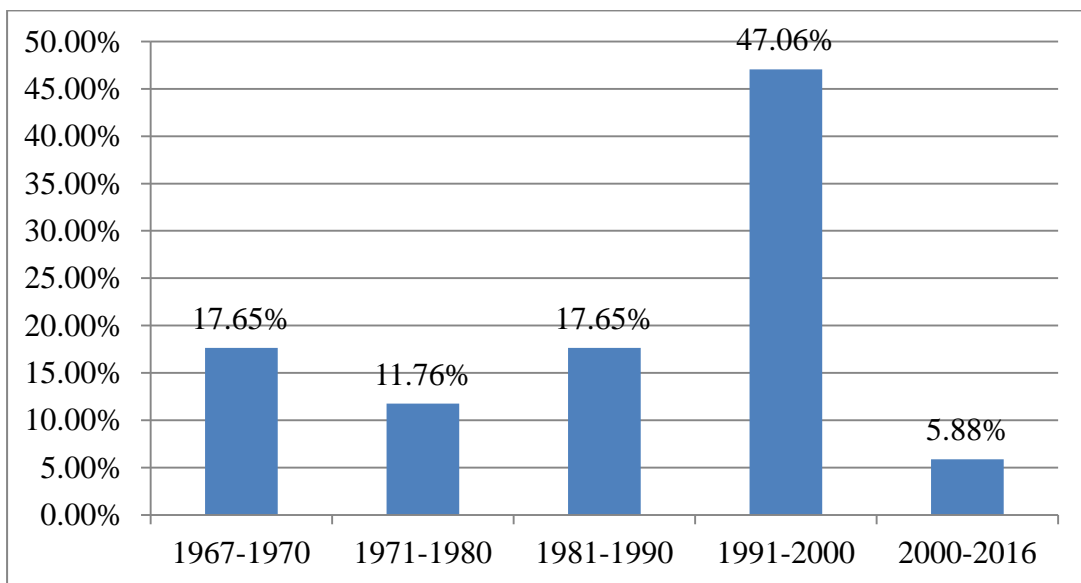


Figure 4.3: Period of establishment. Research data (2016)

The period of establishment is an indicator of industry growth. Figure 4.3 shows that majority of the firms were established in the period 1991-2000. This followed industry deregulation in Kenya. Many more firms were established after the year 2000 but have not registered as members of Kenya Security Industry Association whose membership this study was limited to and they are estimated to be more than 2,000 firms.

4.2.2 Core Business and Strategic Investments

The core business of a firm is an indication of what the business focuses on in their activities and resource allocation. Strategic investments are the investments that a firm has already committed to the business and the direction the firm is taking. Strategic importance of business units indicates the dominance of a business unit in regards to resource allocation.

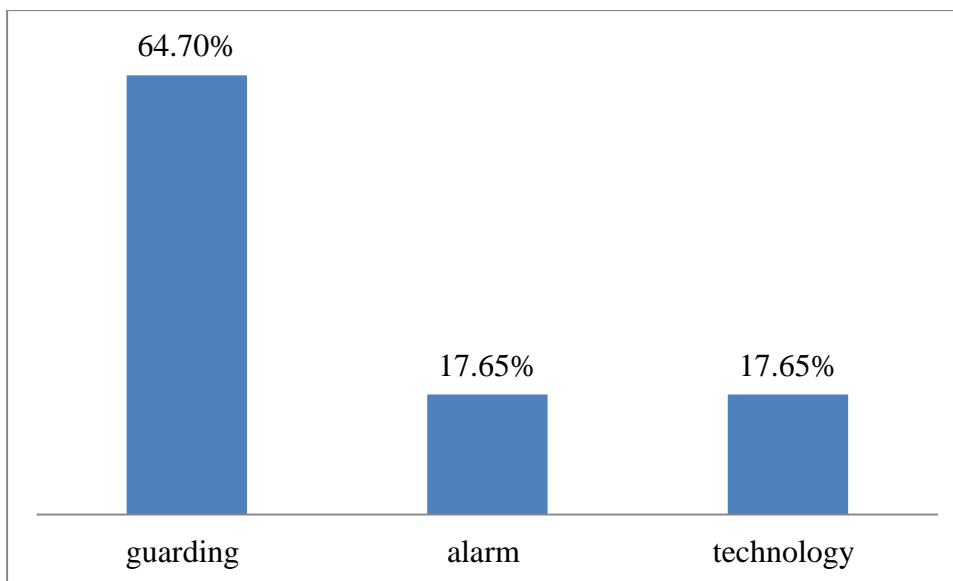


Figure 4.4: Core business of firms. Research data (2016)

Figure 4.4 shows that a majority of the firms have their core business in guarding at 64.7%. These firms also have the other product lines of alarm response services, cash management, dog units and technology installations. Alarm response was the core business for 17.65% of the firms while technology installation was the core business for another 17.65%. None of the firms stated that cash management or dog unit was their core business.

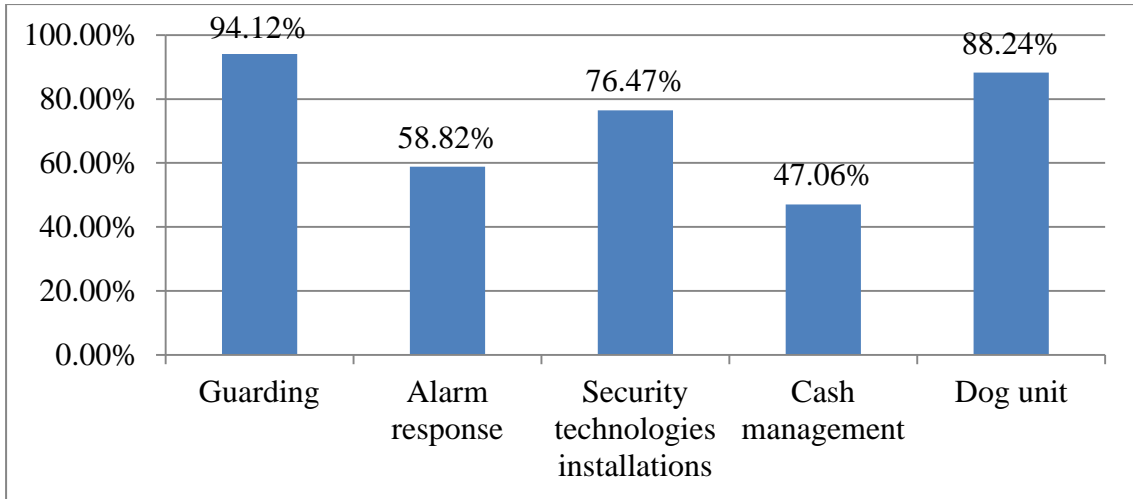


Figure 4.5: Strategic investments in business sectors. Research data (2016)

Figure 4.5 shows that a majority of the firms at 94.12% had investments in the guarding services business. A majority of firms with guarding business also had the complementary dog unit which was at 88.24%. Strategic investment in alarm response and cash management was at 58.82% and 47.06% respectively. This was attributed to the capital intensive nature of these product lines.

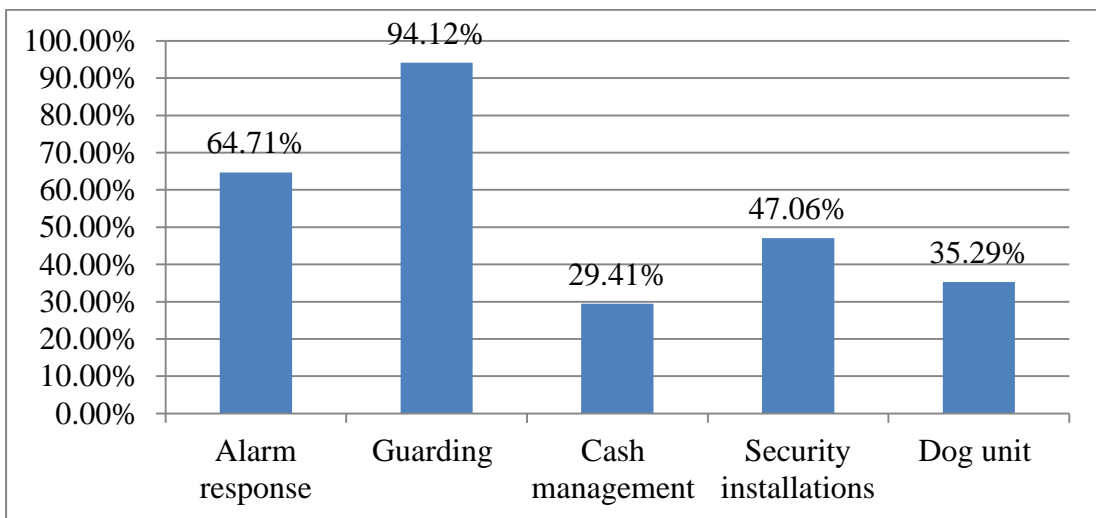


Figure 4.6: Dominant business units. Research data (2016)

Figure 4.6 shows that the guarding service was the dominant business unit for 94.12% of the respondent firms. Alarm response follows at 64.71% of the firms as it was considered important to both firms that are diversified as well as those that specialize

in the product line. Cash management services was considered least dominant compared to the other product lines. This was because majority of the firms did not provide the service at all.

4.2.3 Competitors and Collaboration

The manner in which firms view their competitors and collaborate is important in strategic group research. This is in line with the cognitive school of thought in strategic groups' theory. This section looks at the percentage of firms that collaborate. It also looks at the percentage of firms that viewed each other as competitors.

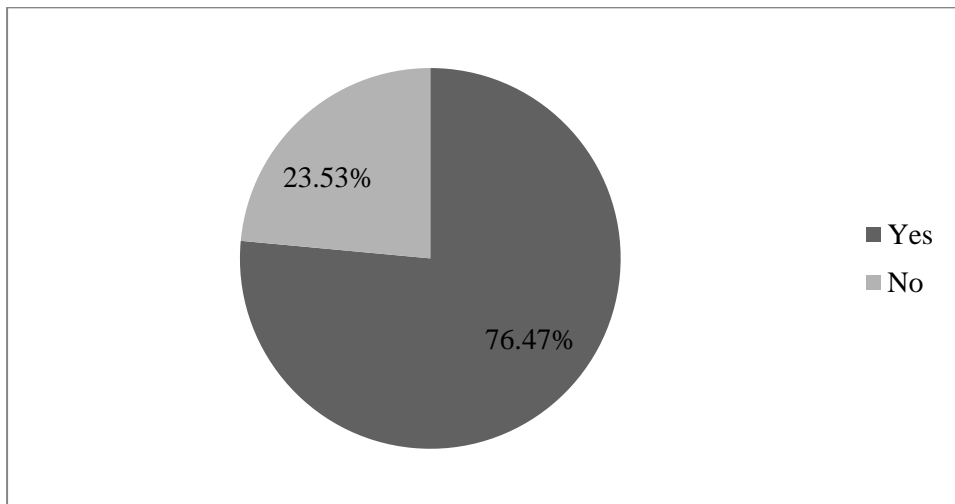


Figure 4. 7: Collaboration in the private security industry. Research data(2016)

Figure 4.7 shows that majority of the firms favour collaboration with competitors at 76.47%. The firms collaborate for towards meeting different ends. The larger firms collaborate with smaller firms to maximize their asset base. The smaller firms on the other hand collaborate in order to access markets that they could not by using resources from the bigger firms. The collaboration is mainly in alarm response business where the larger firms provide support to smaller firms that do not have the required infrastructure to provide the service yet their customers need it. The 23.53%

of firms that do not collaborate are either firms that provide technology installations only without alarm response back up services for their customers or bigger firms that have a policy of not collaborating with competitors.

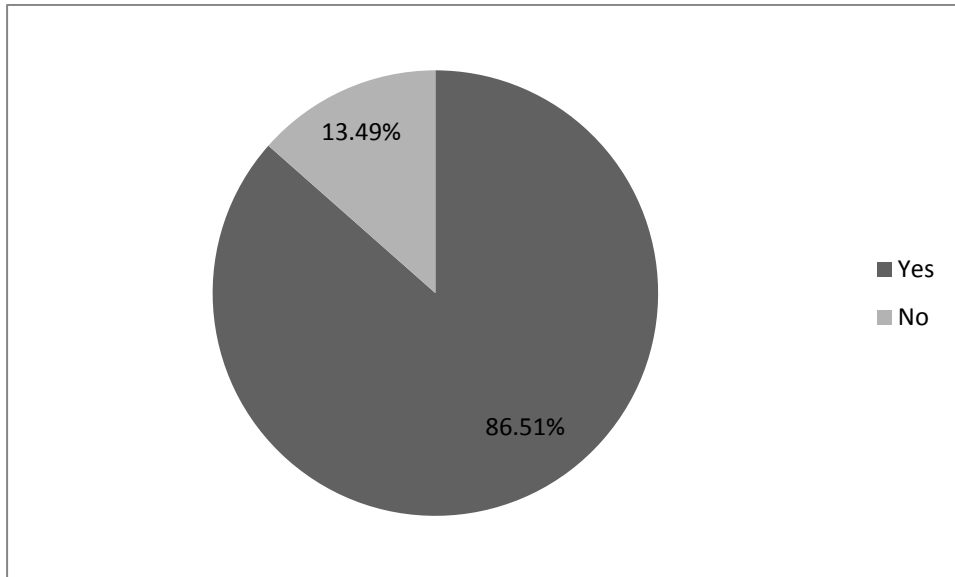


Figure 4.8: Direct competitor perceptions. Research data (2016)

Figure 4.8 shows that majority of firms at 86.51% mirrored each other in the question 'who are your major competitors?' The 13.49% are the responses where a firm did not reciprocate in naming the other firm as a major competitor. This indicates that a majority of the firms have mutual recognition regarding close and distant competitors in the industry. This is in line with the cognitive school of thought.

4.3 Barriers in Meeting Business Objectives

This section looks at the factors that cause a hindrance to a firm meeting its business objectives. It aims at determining which are the forces in the industry that impact firms profitability. Frequency tables have been used in this section. The goal of using the frequency tables is to determine which factors have a stronger impact on the firms compared to the others.

Table 4.1: Cost of attracting and maintaining skilled staff

Level of hindrance	Frequency	Percentage
Greatest hindrance	9	52.94
Greater hindrance	3	17.65
Great	4	23.53
Less hindrance	1	5.88
Least hindrance	0	0

Table 4.1 shows that 52.94% of the firms studied considered the cost of attracting and maintaining skilled staff as the greatest hindrance to them achieving their business objectives. Cumulatively, this cost as a hindrance ranked from great to greatest for 94.12% of the companies. This is because the industry experiences a high turnover of staff moving between companies, with big companies training management staff who then move to smaller firms for bigger positions. Frontline personnel on the other hand aspire to move from the smaller firms to the bigger firms for better remuneration.

Table 4.2: Increased competition from new entrants

Level of hindrance	Frequency	Percentage
Greatest hindrance	8	47.06
Greater hindrance	5	29.41
Great	1	5.88
Less hindrance	2	11.76
Least hindrance	1	5.88

Table 4.2 shows that 47.06% of the companies studied stated that increased competition from new entrants was the greatest hindrance to their meeting their business objectives. Cumulatively, 82.35 % of the companies ranked this factor as being from great to greatest hindrance. This can be attributed to the fact that many new entrants are entering this industry and charging lower prices especially in the guarding business posing a threat to the bread and butter of the industry as market shares reduce and prices are driven down.

Table 4.3: High investment and operational costs

Level of hindrance	Frequency	Percentage
Greatest hindrance	7	41.18
Greater hindrance	3	17.65
Great	5	29.41
Less hindrance	1	5.88
Least hindrance	1	5.88

Table 4.3 shows that high investments and operational costs were viewed as of greatest hindrance to 41.18% of the firms and cumulatively to 82.24% of the firms studied. Guarding business being a labour intensive business has high operational cost while alarm response being a capital intensive business has high investment costs, with additional costs in training and safety and security equipment. Only 11.76 % of the firms studied did not find investments and operational costs as a great hindrance.

Table 4.4: Limited financing

Level of hindrance	Frequency	Percentage
Greatest hindrance	0	0
Greater hindrance	2	11.76
Great	6	35.29
Less hindrance	6	35.29
Least hindrance	3	17.65

Table 4.4 shows that none of the respondents said that inadequate financing was the greatest hindrance to meeting their business objectives. This can be attributed to managerial pride where they would be very unlikely to admit that their firm was having inadequate finances to carry on their business. 47.05 % of the firms however confirmed that inadequate financing was of great to greater hindrance to meeting their business objectives.

Table 4.5: Substitute products

Level of hindrance	Frequency	Percentage
Greatest hindrance	0	0
Greater hindrance	4	23.53
Great	5	29.41
Less hindrance	8	47.06
Least hindrance	0	0

Table 4.5 shows that none of the respondents found substitute products to be a greatest of least hindrance. 52.94% of the firms however found it to be either a great to a greater hindrance towards meeting their business objectives. On the other hand none of the firms felt that it was a least hindrance to meeting their business objectives.

This can be attributed to the fact that there is no substitute to the security services offered in the market. The concern is which service a consumer will prefer and can change from one type to the other.

Table 4.6: Unpredictable government policies

Level of hindrance	Frequency	Percentage
Greatest hindrance	0	0
Greater hindrance	1	5.88
Great	8	47.06
Less hindrance	7	41.18
Least hindrance	1	5.88

Table 4.6 shows that none of the respondents stated that unpredictable government policies was the greatest hindrance to achieving their business objectives. However, 52.94% of the surveyed firms stated that it had a great to greater hindrance to their meeting their business objectives. This indicates that there is some stability in government policies towards this industry with 47.06% finding this to be less or least hindrance to meeting their objectives.

Table 4.7: Inefficient Supply Chain

Level of hindrance	Frequency	Percentage
Greatest hindrance	1	5.88
Greater hindrance	1	5.88
Great	3	17.65
Less hindrance	9	52.94
Least hindrance	3	17.65

Table 4.7 shows that 5.88% of the firms found that an inefficient supply chain to a greatest hindrance to meeting business objectives while cumulatively 29.41% found it to be of great to greatest hindrance. The survey data therefore shows that 70.59% of the firms in the industry do not find inefficient supply chain as a major barrier. This indicates that a majority of the firms have developed supply chain management systems such that they are not a hindrance to their meeting their business objectives.

Table 4.8: Restrictive legislation

Level of hindrance	Frequency	Percentage
Greatest hindrance	0	0
Greater hindrance	5	29.41
Great	4	23.53
Less hindrance	6	35.29
Least hindrance	2	11.76

Table 4.8 shows that none of the surveyed firms found restrictive legislation to be a greatest hindrance to meeting their business objectives. 52.94% of the firms however found restrictive legislation to be a great to greater hindrance to meeting their objectives. 47.06% of the firms did not find restrictive legislation as a hindrance. The legislation in the industry mainly pertains to training of staff, and the costs of safety and protective clothing and equipment which the companies can always pass on to their customers.

Table 4.9: Diseconomies of scale

Level of hindrance	Frequency	Percentage
Greatest hindrance	4	23.53
Greater hindrance	5	29.41
Great	2	11.76
Less hindrance	5	29.41
Least hindrance	1	5.88

Table 4.9 shows that 23.53% of the firms found this to be a greatest hindrance to meeting their business objectives and cumulatively 64.70% found this to range from great to greatest as a hindrance to firms in meeting their business objectives. This shows that majority of the firms desire to grow beyond their current sizes in order to benefit from economies of scale.

Table 4.10: Price undercutting in the market

Level of hindrance	Frequency	Percentage
Greatest hindrance	4	23.53
Greater hindrance	8	47.06
Great	1	5.88
Less hindrance	3	17.65
Least hindrance	1	5.88

Table 4.10 shows that 23.53% of the respondents said that price undercutting was a greatest barrier to their meeting their business objectives. Cumulatively, 76.47% said that price undercutting ranged from great to greatest barrier to meeting business objectives. This is an indication of the cut-throat nature of the industry characterized by negotiated contracts and discounts which are detrimental to profitability as the

firms compete for more market share or to retain the share that they already have. The companies that did not find it to be a less or least hindrance are the firms that have differentiated offering such that they increase prices when others lower them.

Table 4.11: Ineffective regulations

Level of hindrance	Frequency	Percentage
Greatest hindrance	1	5.88
Greater hindrance	3	17.65
Great	5	29.41
Less hindrance	6	35.29
Least hindrance	2	11.76

Table 4.11 shows that 5.88 % of the respondent firms felt that ineffective regulations was a great hindrance to their meeting their business objectives and cumulatively 52.64% said it was of great to greatest hindrance.. Those that did not find it a great hindrance felt that the laws and regulations governing the industry were ineffective and exist only on paper but not in practice and are applied only when convenient. On the other hand some firms felt the regulations were hindering their growth.

Table 4.12: Inadequate internal capacity

Level of hindrance	Frequency	Percentage
Greatest hindrance	1	5.88
Greater hindrance	3	17.65
Great	6	35.29
Less hindrance	3	17.65
Least hindrance	4	23.53

Table 4.12 shows that 5.88% of the respondents found internal capacity a greatest hindrance to meeting business objectives. Cumulatively, 58.82% of the respondents found that internal capacity ranked from great to greatest as a barrier to achieving their business objectives. The firms that had the opinion that internal capacity was a hindrance were the smaller firms that not yet attained the capacity in terms of resources to meet their business objectives fully. The firms that had least hindrance from internal capacity were the large ones as they had resources to resolve any such perceived issues.

4.4 How Private Security Firms Respond to Market Dynamics

This section looks at the results of the data obtained on how the firms respond to market dynamics. The response a firm makes toward the market dynamics is an indicator of its strategy. In some of the factors, majority of the firms respond in a similar manner while in others there are sharp differences in the response strategies used. The following sections provide details of the responses from the respondent firms.

Table 4.13: Aggressive marketing

Level of importance	Percentage
Most important	47.06
More important	47.06
Important	5.88
Less important	0
Least important	0

According to Table 4.13, 47.06% of the respondent firms stated that aggressive marketing was the most important response to market dynamics. Cumulatively, 100% of the companies had aggressive marketing ranking from important to most important response. None of the firms found marketing as a less or least important response. This is due to the fact that marketing drives revenues and every firm finds it important when dealing with a dynamic environment.

Table 4.14: Cost cutting measures

Level of importance	Percentage
Most important	47.06
More important	23.53
Important	17.65
Less important	11.76
Least important	0

Table 4.14 shows that 47.06% of the firms that responded had cost cutting measures as the most important response to the market dynamics. Cumulatively, 88.24% of the firms found implementing cost cutting measures as ranking from important to most important. This is because cost cutting is one way of increasing profitability in the face of stiff competition where prices cannot be raised arbitrarily. It is important to note that none of the firms found cost cutting to be of least importance.

Table 4.15: Return on asset maximization

Level of importance	Percentage
Most important	17.65
More important	58.82
Important	17.65
Less important	0
Least important	5.88

According to Table 4.15, 17.65% of the firms that responded viewed return on asset maximization as a most important response to the dynamics in the market. Cumulatively, 19.12% of the firms felt that maximization of return on assets as ranking from important to most important. This is because every firm would like to make the most of the assets in its possession to get the most out of them. This is in response to the stiff competition where a firm has to look for means and ways to remain profitable.

Table 4.16: Operational Efficiency

Level of importance	Percentage
Most important	47.06
More important	17.65
Important	17.65
Less important	5.88
Least important	11.76

According to Table 4.16, 47.06 % of firms that responded felt that operational efficiency was the most important response to market dynamics. Cumulatively, 82.36% of the firms recognized that operational efficiency ranked from important to most important in order to meet challenges of the dynamic business environment. This is related to managing the costs that the firm incurs. This means that majority of the firms continuously work on improving the efficiency of their activities to reduce costs and hence increase profitability.

Table 4.17: Vertical integration

Level of importance	Percentage
Most important	0
More important	11.76
Important	5.88
Less important	11.76
Least important	70.59

According to Table 4.17, vertical integration is not a most important strategic response for any private security firm. A total of 17.64% of the firms ranked vertical integration as either important or more important response to the market dynamics. 70.59% of the firms felt that vertical integration is of least importance as a strategic response. This can be attributed to the fact that the chain of distribution in this industry is relatively short with most companies dealing directly with the customer and there being little perceived power from suppliers in this industry.

Table 4.18: Mergers and Acquisitions

Level of importance	Percentage
Most important	5.88
More important	5.88
Important	0
Less important	11.76
Least important	76.47

According to Table 4.18, 5.88% of the firms that responded felt that mergers and acquisitions was most important as a response to market dynamics. Cumulatively, 11.76% of the firms found mergers and acquisitions to be more or most important. 88.23% did not find mergers and acquisitions as important. All the companies in this industry are privately owned which makes mergers and acquisitions very hard and rare.

Table 4.19: Strategic alliances

Level of importance	Percentage
Most important	17.65
More important	5.88
Important	23.53
Less important	35.29
Least important	17.65

Table 4.19 shows that strategic alliances is most important as a strategic response to 17.65% of the firms in the industry. Cumulatively, 47.06% of the firms felt that strategic alliances ranked from important to most important. Strategic alliances was mainly formed between larger firms and smaller firms as explained elsewhere in this paper.

Table 4.20: Market exit options

Level of importance	Percentage
Most important	5.88
More important	0
Important	0
Less important	11.76
Least important	82.35

According to Table 4.20, only 5.88% of the firms that responded found market exit options as most important response to market dynamics. On the other hand, 94.11% of the firms felt that market exit options as less or least important strategic response. This can be attributed to the fact that firms in the industry invest heavily so as to provide their services. These firms would find it difficult to exit the market without incurring substantial losses.

Table 4.21: Product diversification

Level of importance	Percentage
Most important	17.65
More important	41.18
Important	35.29
Less important	5.88
Least important	0

According to Table 4.21, 17.65% had product diversification as a most important response to the market dynamics. Cumulatively, 94.12% of the firms felt that product diversification ranked from important to most important as a response to market dynamics. None of the companies that responded said felt that it was least important. This can be attributed to the fact that product diversification is a way that a firm is able to cushion itself from situations of poor performance in other product lines.

Table 4.22: Selective market targeting

Level of importance	Percentage
Most important	11.76
More important	58.82
Important	29.41
Less important	0
Least important	0

According to Table 4.22, 11.76% of the firms that responded had selective target marketing as most important. The rest of the firms felt that selective market targeting was either important or more important. None of the firms considered selective market targeting as less or least important. This was attributed to the importance placed in developing solutions that are suitable to the target market that the firm has in mind.

Table 4.23: Image change/ Rebranding

Level of importance	Percentage
Most important	17.65
More important	23.53
Important	35.29
Less important	11.76
Least important	17.65

According to Table 4.23, 17.65% of the firms found image change or rebranding to be most important response to market dynamics. Cumulatively, 76.47% of the firms found this change to range from important to most important. 17.65% of the firms felt that image change was least important. Firms that rarely changed their image or

rebranding were confident of how their brand was perceived in the market. The firms that found it to be most important are the firms that wanted to let the market know about improvements they have made especially in their capabilities so as to retain and bring in more customers.

Table 4.24: Recapitalization (via equity or leverage)

Level of importance	Percentage
Most important	5.88
More important	5.88
Important	11.76
Less important	35.29
Least important	17.65

According to Table 4.24, 23.52% of the firms found recapitalization to rank from important to most important. This indicates that a majority of the firms found this factor to be less to least important. This may be because most respondents did not want to give the impression that their firm was not sufficiently well financed.

4.5 Strategic Groups and Firm Performance

Table 4.25: Summary of strategic groups and performance

Cluster	No of firms in cluster	% of firms in cluster	% of revenues by cluster	Average revenue of cluster (m)	SD of revenues in cluster
1	4	23.5	72.19	4468.75	2083.77
2	3	17.6	0.50	45.33	9.05
3	8	47.1	26.75	828.13	869.98
4	2	11.8	0.54	62.5	6.36
Total	17	100	100	1454.18	2057.80

Table 4.25 shows that the two step cluster analysis conducted on the data collected produced four sets of clusters. The clusters represent the strategic groups that our study sought to identify. Table 4.25 also shows some of the descriptive statistics that resulted from the data. It is clear that there are some differences among the groups that were identified.

Cluster 1 consists of firms that form 23.5% of the industry. They have the lion's share of the revenues generated in the industry at 79.12%. They had above industry average revenue at Kshs. 4468.75 million compared to industry average of Kshs. 1454.18 million.

Cluster 2 consists of 17.60% of firms in the industry. They control 0.5% of revenues in the industry. Their average revenues is Kshs.45.33 million which is much lower than the industry average. Group 3 consists of 11.80% of firms in the industry. They have 0.54% of the revenues generated in the industry. Their average revenue is also below the industry average at Kshs. 62.5 million. Finally, cluster 4 consists of 47.10% of the firms in the industry. They account for 26.75% of the revenues in the industry. The average revenue for firms in this cluster is Kshs. 828.13 million which is also below the industry average.

4.5 Discussion of Findings

The cluster analysis conducted on the data collected revealed four clusters of firms in the private security industry in Kenya based on key strategic dimensions in the industry. This corresponds with the predictions of the strategic groups' theory that firms in an industry are not homogeneous save for size but rather they have similarities differences based on the strategies that they use by Porter (1980). The cluster analysis brings together firms with similarities and maximizes sharp

differences according to Harrigan (1985). A similar study by Notta (2015) using the two step cluster analysis revealed strategic groups with performance differences in the Greek dairy industry.

Descriptive statistics revealed differences in performance of the different clusters that had been identified. This is similar to studies by Notta (2015), Xiao (2014), Stouten (2011) and Theuvsen (2010). The present study showed that the different groups following similar strategies had wide variation in performance. The performance was measured using one of Richards (2009) measures of gross revenues. Firms with higher gross revenues are assumed to have a better performance than those firms with smaller revenue.

Similarities of firms were also identified and corresponds with Oster (1999) prediction of similarities in scope and resource deployment. This was demonstrated by firms in the same cluster having similarities in terms of their product line breadth shown by the strategic investments by the firms in the various business units. These similarities can also be seen from Reger and Huff (1993) cognitive strategic groups. This is by a majority of the firms identifying each other as direct competitors showing that the managers of the firms have in their minds whom their close and distant competitors are.

The mobility barriers according to Mascarenhas and Aaker (1989) and Caves and Porter (1977) cause the industry to fragment into the strategic groups identified. They provide hindrances that make it a challenge for a firm to change groups mainly due to specialized sticky investments (Caves and Ghemawat, 1992) as noted in this industry. This implies that the group structure identified is expected to persist according to Feigenbaum and Thomas (1995)

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter will give a summary of the findings of the research that was carried out by the author. It will then be followed by the conclusion of the study. Recommendations will then be made for managers and policy makers. Finally the chapter shall end with the limitations of the study and the suggestions for further study.

5.2 Summary

There were four strategic groups that were identified from the analysis of the data collected from the firms in the private security industry. The research paper will be summarized by an overview of the four strategic groups and the factors that explain their existence of those groups as well as explain the differences in their performance.

5.2.1. Strategic Groups in the Private Security Industry

Four strategic groups were identified from the analysis of the data from the respondent firms. They were noted to have intra group similarities in strategies as well as performance. The driving forces in the industries were found to be more favorable to the firms that had adequate resources and thus had strategic investments that resulted in mobility barriers to other firms. They were also able to build alliances where the smaller firms used their resources and the bigger firms were able access new markets. They therefore were able to command much bigger revenues compared to the smaller firms.

Group one consisted of the older firms consists some of the oldest firms in the industry. Some had grown through mergers and acquisitions and had foreign ownership who added to managerial competence. They had strategic investments across all the product lines and some even had diversified to interests outside the industry. They had fewer hindrances to meeting business objectives. The firms in group one performed well compared to firms in the other as shown in table 4.25.

Group two consisted of security firms that are based outside of Nairobi. They have considerable market share in their home towns. The home towns are much smaller than the Nairobi market thus accounting for the difference in gross revenues between groups one and two. They focus on cost leadership to take market share from the big companies from Nairobi. Their main challenge is to consolidate their home market share by taking it and keeping it away from the firms in group one that also have investments in most parts of the country.

Group three consisted of security companies that focus on security technology installations and maintenance. They have much smaller staff sizes as they do not have the labor intensive guarding segments. They have much smaller gross annual revenues compared to groups one and four but are at par with group two firms. Their focus and expertise in one area makes them stay in business as they are able to provide customized services to their clients where group one firms have a broad focus.

Group four consists of the small to medium sized security companies. They have diversified into most of the product lines in the industry. They have lower prices compared to the companies in group one as they focus on providing similar services like group one companies at more competitive prices. They have grown due to the increase in demand for security services in the country.

5.2.2 Strategic Responses to Market Dynamics and Performance of Firms

The analysis of the survey data on the strategic responses to market dynamics can be linked to the performance of the firms. Aggressive marketing was considered to be between important to most important by most firms in the industry. The firms in this industry prefer personal selling due to the nature of the packages they provide and it is not common to see or hear advertisement by these firms. They also frequently use sponsorship and public relations for marketing purposes. The difference between group one and the other groups is the size of their sales force and the resources they have dedicated to attract and retain customers. The above methods of marketing enable the firms to conduct targeted marketing thus reducing waste and noise in their communication. They target customers who will be profitable for their firms and pursue them vigorously. It therefore follows that image change and rebranding is not commonly used in this industry as they are all confident about their brands and frequent changes in branding or image may confuse their sensitive customers.

Cost cutting and reorganization was important as the cut throat competition with lower prices and rising costs such as wages and equipment means more focus on operational efficiency and streamlining of operations. The firms ranked important to most important the return on asset maximization as the firms seek to get more returns on the same asset base. Recapitalization was not revealed as important for firms in this industry probably because of their private ownership nature and thus did not prefer to disclose such information.

Product diversification was important for all firms. The big firms that had fully diversified firms within the industry pursued other product lines including asset tracking, courier services, risk management and consultancy, training and private investigations. The smaller firms focused on product diversification within the industry including dog units, technology installations, alarm response services and cash management. Some big firms considered vertical integration to be important and were thus on the lookout for integration opportunities to grow their businesses. Mergers and acquisitions were less important but firms did not rule out the response completely and would take advantage should an opportunity arise. Strategic alliances were important for all firms in this study as they are all members of the Kenya Security Industry Association, a body that champions quality in the security industry. Other types of alliances noted in this industry is where a firm seeks to collaborate with other firms to maximize asset utilization, access new markets, increase scale economies and complementing where a firm could not provide all the services or was not available in all areas. Market exit options was not important for the firms studied as they perceived that the improved economy will bring in more opportunities for their businesses and also it would be costly due to the investments already in the business.

5.2.3 Mobility Barriers in the Industry

The analysis of the data collected from the private security firms in Kenya show that cost of attracting and maintaining skilled staff is a hindrance to firms in all the strategic groups. This was, however, not much of a hindrance to group one firms as all the talented staff wanted to join them to the detriment of firms in the other groups. Firms in the groups two, three and four paid a high cost when they got staff from the

group one companies. The operational and investments costs were considered high and great hindrance for all groups other than group one. This is because they were considered sunk investments by group one firms who looked at additional business as good as they did not incur additional expenses. The firms in the other groups have to incur these costs for additional business and it can be costly for them to imitate the strategies of the group one firms. Diseconomies of scale important to 64.7% of the companies because other than the group one companies, the other firms sometimes conduct operations at a loss because there are not benefits from economies of scale. Inadequate internal capacity was considered a great to greatest hindrance to achieving business objectives for 58.82% of the firms, and other than group one and some the bigger firms in group four, most firms had not developed enough to internal capacity to meet their business objectives in the current turbulence of the market.

Perceptions of increase in competition by new entrants differ from group to group with 82.35% rating it from great to greatest hindrance to meeting their business objectives. For group one firms, they were not as much affected as they offer differentiated products and competition is within them as there has been no entrant at the level of performance as these firms. Group four was most exposed to increased competition as their product is undifferentiated and any new company in the market targets their customers. Substitute products was a not a greatest hindrance to any firm in this industry. It had 52.94% rating as either great of greater for the surveyed firms. The threat mainly arises from technological platforms and they are not rated greatest as the products are not in the Kenyan market

The government also produces mobility barriers due to its actions which can cause hindrance to firms meeting their business objectives. This is through unpredictable policies, restrictive legislation and ineffective legislation. The group one firms can easily comply with any requirements from the government and can pass the costs to their customers without losing business. The firms in the other groups sometimes lose business when they pass their costs to their customers, and sometimes may find they do not have the capacity to fully comply with some requirements.

5.3 Conclusions

The findings of the study agree with the theory of strategic groups. They show that the industry is not composed of firms with homogenous entities save for size. They instead show that the firms are heterogenous bundles of resources each firm being unique in its resources and capabilities. They show that though the firms are quite different in many ways, some of the firms have similarities in the strategies that they adopt. The strategies adopted by the firms are a function of the resources and the investments made by the firms as well as other factors like time and experience of the firms in the industry. As the theory predicts there are mobility barriers that impede firm movement across strategic group boundaries freely. The firms are bound by their differences and similarities to stay in one strategic group and it is very unlikely that any of the firms in the strategic groups discovered would be able to change their strategic positioning unless there are some major structural changes and upheaval in the industry.

The findings also concur with several findings stated elsewhere in this paper that conclude that strategic group membership affects performance of firms. In the study, the data showed that the revenues of group one companies were much higher

compared to any other group. They are able to generate these high returns due to learning curve effects as investments in people and other resources made over time. It is clear that the mobility barriers identified previously will make it unlikely that firms in groups two, three and four will join group one. The performance of firms in group groups two, three and four are likely to remain the same unless a fundamental change occurs in the firm that will make it change the way it competes.

The private security industry has four strategic groups and there exists mobility barriers that affect how the firms respond to market dynamics. Firms in group one are the ‘big four’ of the industry and are not affected by the hindrances identified in the industry. Group two firms are security firms based up country where they get the chunk of their business and cooperate with the group one firms in strategic alliances. Group three firms are technology installers and they provide a solution that can be considered complementary to the other companies even though the other companies have business units that carry out the same activities.

5.4 Recommendations

The researcher recommends that firms managers of firms that want to radically change the position of their firms need to understand the strategic group structure of their industries. This knowledge will help them make the right strategies that will enable the firm to move in the right direction. The proper understanding of the mobility barriers means the manager can come up with a way to overcome them. This will help to make the industry more competitive and dynamic and produce more robust firms, products and services.

The findings can help the government agencies facilitate commerce and competition. This can be achieved by their understanding of the mobility barriers in the industry. They can then develop policies and a regulatory framework that will benefit all firms in the industry and move competition to another level. This will help develop a more vibrant industry that will provide better returns for all stakeholders including the customer who needs their services to have peace of mind at night when sleeping or away from their valuable property.

5.5 Limitations of the Study

The limitations of this study included reluctance by respondent firms to initially answer the questionnaire. This was due to suspicion that comes from security firms. An explanation that it was a management research project allowed the project to proceed. A majority of the firms returned the filled questionnaires on the agreement of full anonymity in the report. The other major limitation was that the survey concentrated on the membership of Kenya Security Industry Association, while the industry has over two thousand members. This locked out a large number of potential respondents and a deeper understanding of the industry's competitive space.

5.6 Suggestions for Further Study

Studies of strategic groups should be conducted in other industries to better the understanding of the competitive nature of those industries. This information will be helpful to managers and potential new entrants in the industry. It will also enable the identification of mobility barriers which industry associations can use to improve the competitiveness of all the firms in those industries.

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APPENDICES

Appendix (1): Introduction Letter



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DATE 5/10/2016

TO WHOM IT MAY CONCERN

The bearer of this letter ROGER NYINGI MAINA

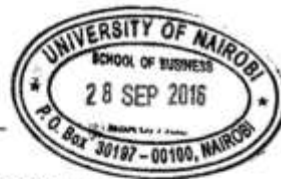
Registration No. D61/74425/2014

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

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

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

Thank you.




PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

Appendix (2): Questionnaire

SECTION A: Background information

1. Name of your company.....
2. When was your company established in Kenya.....
3. What is the nature of ownership
 - a. fully local
 - b. fully foreign
 - c. partly local and partly foreign
4. How many employees do you have.....
5. Does your firm have a strategic plan.....
6. If yes in question 5 above, what is the planning horizon?
 - a. 0-3 years
 - b. 3-5 years
 - c. 6 years and above
7. What is your core business.....
8. Which other business does your organization run.....
.....

SECTION B: Nature of Strategic Groups

9. Please indicate if your firm has capital investment in the following areas in the private security industry in Kenya (Tick where appropriate)
 - a. Guarding service (manned security)
 - b. Alarm response (radioalarm) services
 - c. Security technology installations
 - d. Cash in transit
 - e. Other (specify).....
10. Name at least 3 companies within the private security industry that you consider to be direct competitors to your firm
 - a.
 - b.
 - c.
 - d.

11. Which business unit (SBU) is /are dominant in your firm in relation to other units within your organization in terms of resource allocation and strategic importance to the firm (please rank them in order of dominance: 5 being the most dominant and 1 being the least)

	Most Dominant			Less Dominant	
	5	4	3	2	1
a. Alarm response	()	()	()	()	()
b. Guarding services	()	()	()	()	()
c. Cash in transit	()	()	()	()	()
d. Security installations	()	()	()	()	()
e. Others (specify)	()	()	()	()	()

12. Does your firm seek out to improve its competency by joining forces with other firms

- a. Yes b. No

13. If the answer to question 12 is No, then what influenced your firm not to seek the collaboration as an alternative to improving its competency.....
.....

14. If answer to question 12 is Yes, then do you consider the private security firm in collaboration of the same competitive league as your company.....
.....

15. What was your company's motivation for the joint undertaking (tick as appropriate?)

- a. Maximize on asset/capacity utilization
- b. In order to complement us on a service we solely could not offer
- c. In order to lock out competitors from certain interests and businesses
- d. Assistance to access new customers or markets
- e. Assistance to access business administration
- f. To gain from consultancy services in area such as quality management
- g. Pulling resources for operational efficiency
- h. Pulling resources together in order to realize economies of scale
- i. Other reason(specify).....

16. Please rank the below items in the order level of hindrance to your firms progress in meeting business objectives (where 5 is greatest hindrance to meeting objective and 1 is of least hindrance)

	most			least	
	hindrance			hindrance	
	5	4	3	2	1
a. Cost of attracting/ maintaining skilled staff	()	()	()	()	()
b. Increased competition by new entrants	()	()	()	()	()
c. High investment and operational costs	()	()	()	()	()
d. Limited financing	()	()	()	()	()
e. Substitute products	()	()	()	()	()
f. Unpredictable government policies	()	()	()	()	()
g. Inefficient supply chain	()	()	()	()	()
h. Restrictive legislation	()	()	()	()	()
i. Diseconomies of scale	()	()	()	()	()
j. Price undercutting in the market	()	()	()	()	()
k. Ineffective regulations	()	()	()	()	()
l. Inadequate internal capacity	()	()	()	()	()
m. Other(specify)	()	()	()	()	()

17. How important has each of the following strategic responses been to your firm in realigning itself to dealing with market dynamics (please rank them in order of importance: 5 being the most important and 1 being the least important)

<u>Strategic responses</u>	1	2	3	4	5
a. Aggressive marketing	()	()	()	()	()
b. Cost cutting/ reorganization	()	()	()	()	()
c. Return on asset maximization	()	()	()	()	()
d. Operational efficiency	()	()	()	()	()
e. Vertical integration	()	()	()	()	()
f. Mergers and acquisitions	()	()	()	()	()
g. Strategic alliance	()	()	()	()	()
h. Market exit options	()	()	()	()	()
i. Product diversification	()	()	()	()	()
j. Selective market targeting/ market rationalization	()	()	()	()	()
k. Image change/rebranding	()	()	()	()	()
l. Recapitalization-cash injection through equity or leverage	()	()	()	()	()
m. Others (please specify).....	()	()	()	()	()

SECTION C: Organizational Performance

18. What was your firm's gross revenue for the last three financial years ending in: 2015.....2014.....2013.....

THANK YOU FOR YOUR TIME AND ANSWERS

Appendix (3): List of Security Companies that are Members of KSIA

1. Wells Fargo ltd
2. AKKAD systems
3. Collindale security
4. Bob Morgan Services Ltd
5. Ultimate Security ltd
6. G4S (k) ltd
7. Instarect
8. KK security
9. Magnum Allied Systems ltd
10. Pinkertons Ltd
11. Riley Services ltd
12. Securex Agencies ltd
13. Security group of companies ltd
14. Watchdog alert
15. Total Security Surveillance ltd
16. Radar Security ltd
17. Fidelity Security services
18. Corporate Security
19. Cobra security
20. Crest security services
21. Brinks security services
22. Cybertrace
23. Texas alarms
24. Northwood services
25. 911 group ltd
26. Absolute security ltd
27. Infama ltd
28. Bedrock security services ltd
29. Saladin Kenya ltd
30. Envag associates

Source: www.ksia.co.ke , 16th September 2016