The effect of competition on strategic orientation of cement manufacturing firms in Kenya

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Abstract
The cement industry in Kenya has seen intense competition as many firms enter the industry to get a stake of the market. The market is widespread as the firms not only serve local demand but also that of neighbouring countries such as Uganda, Tanzania, Rwanda, Burundi, Democratic Republic of Congo, and most recently South Sudan. The industry has both local and international players. The study therefore seeks to examine the effect of competition on strategic orientation of cement manufacturing firms in Kenya. This study has been conducted through a desk review and interviews with managers of firms in the industry. The data collected is analysed in prose using content analysis as it was qualitative in nature. The results show that competition in the industry has led to firms seeking three strategic orientations – customer, competitor, and technology orientations.

Keywords: Strategic orientation, market orientation, competition, cement industry, Kenya

INTRODUCTION

Strategic Orientation

Strategic orientation is an indication of the direction in which a business wants to or should go in the future, and how well it is set up to do so (Wiesen, 2014). According to Gatignon and Xuereb (1997), strategic orientation reflects “the strategic directions implemented by a firm to guide its proper activities for continuous superior performance”. There are two major components to strategic orientation. The first component is the sense that an organisation has a plan for the future while the second component is that fact that a business can evaluate how well it is fulfilling its plan. With both components, strategic orientation helps an organisation analyse strategy for future growth as it compares with the actual execution of procedures.

There are a number of methods available that can be used to evaluate strategic orientation in organisations. They rely on analysing the importance of strategy to an organisation. Should a firm develop a strategic plan and then ignore it for some time, it cannot be said to be strategically well-oriented. On the other hand, a firm that develops a strategic plan, regularly discusses it and uses the plan as a guide is said to be strategically well-oriented. In order for an organisation to be strategically well-oriented, it requires cooperation among all staff and departments. Further, it requires of managers and team leaders in the organisation (Wiesen, 2014).

There are three major types of strategic orientations namely market orientation (Narver and Slater, 1990), technology orientation (Gatignon and Xuereb, 1997), and selling orientation (Noble et al., 2002). Of the three types of strategic orientations, the market orientation has been overly researched. From the studies on market
orientation, it can be noted that it consists of three behavioural components namely customer orientation, competitor orientation, and inter-functional coordination (Narver and Slater, 1990).

Market orientation can be disaggregated into three types namely customer, competitor, and technology orientations. Narver and Slater (1990) noted customer orientation emphasizes the sufficient understanding of the target customers so as to deliver superior values for them. Competitor orientation focuses on understanding the strengths and weaknesses of existing and potential competitors (Narver and Slater, 1990). On the other hand, technology orientation is of the view that consumers will prefer products and services with technological superiority (Gatignon and Xuereb, 1997). The three types of market orientations are therefore examined specifically on how they are affected by the level of competition in the cement industry in Kenya.

The cement industry in Kenya falls under the larger building and construction sector which is amongst the most rapidly growing sectors with an average growth rate of 14.2% (Dyer and Blair, 2012). The cement consumption has been growing at a rate twice that of Kenya’s GDP and at the same rate as that of the building and construction sector. The rapid growth in the industry has been attributed mostly to rising demand for housing, the commercial construction boom, and extensive government and donor-funded spending on the country’s mega infrastructure projects (Dyer and Blair, 2012).

On the other hand, the production of cement has also been rising averaging 11.6%. This has been driven by entry of new cement producers and extensive capacity expansion by existing players in response to increasing competition (Dyer and Blair, 2012). For cement firms to survive in the industry, it is important that the strategic plans in place are well executed as more and more firms enter the industry while the existing ones expand their production plans locally and regionally.

In this paper, I analyse the effect of competition on strategic orientation and find that indeed competition has led the cement manufacturing firms in Kenya to seek three strategic orientations – customer, competitor, and technology orientations. This is significant in contributing to the knowledge on strategic competition of manufacturing firms especially in Kenya where such orientations in cement manufacturing firms has not been documented before yet the industry is a significant contributor to the country’s GDP as is growing beyond the Kenyan market.

Research Problem

The consequences of strategic orientation, and more specifically those of market orientation, are well empirically researched and documented (Kirca et al., 2005; Han, Kim and Srivastava, 1998; Slater and Narver, 1994; Voss and Voss, 2000; Armstrong and Collopy, 1996) though the results are still inconsistent. On the other hand, studies on how competition affects strategy formation are scarce. These reasons strongly call for a study on Kenya and especially in the cement industry on whether strategy formation is influenced by competitiveness of the industry.

The cement industry in Kenya has seen intense competition as many firms enter the industry to get a stake of the market. The market is widespread as the firms not only serve local demand but also that of neighbouring countries such as Uganda, Tanzania, Rwanda, Burundi, Democratic Republic of Congo, and most recently South Sudan. The industry has both local and international players. With heightened competition, it is important to answer the following research question: How does competitiveness of an industry influence the market orientation? The study therefore seeks to examine the effect of competition on market orientation of cement manufacturing firms in Kenya.

Purpose of the Study

This paper seeks to examine the effect of competition on market orientation of cement manufacturing firms. The specific objectives are:

1. To determine the effect of competition on customer orientation of cement manufacturing firms
2. To examine the influence of competition on competitor orientation of cement manufacturing firms
3. To assess the effect of competition on technology orientation of cement manufacturing firms

LITERATURE REVIEW

Theoretical literature

Strategic orientation is concerned with the decisions that businesses make to achieve superior performance. The Miles and Snow (1978) and Porter (1980) typologies have emerged as the two dominant frameworks of strategic orientation. In the following sections, the two theories are discussed.

Miles and Snow identified four archetypes of how firms define and approach their product–market domains and construct structures and processes to achieve success in those domains. Prospectors continuously seek to locate and exploit new product and market opportunities while defenders attempt to seal off a portion of the total market to create a stable set of products and customers. Analyzers occupy an intermediate position between the two extremes by combining the strengths of both the prospector and defender to cautiously follow prospectors...
Competitive Environment

Customer Orientation

Competitor Orientation

Technology Orientation

Figure 1. is the graphical presentation of the relationships. Source: Author (2014)

into new product–market domains while protecting a stable set of products and customers. A fourth type, the reactor, does not have a consistent response to the entrepreneurial problem.

Porter (1980) proposed that the entrepreneurial problem should be viewed as a product of how the firm creates value and how it defines its scope of market coverage. Walker and Ruekert (1987) synthesized these typologies of entrepreneurial behavior by discriminating between Low Cost Defenders and Differentiated Defenders. This study makes use of that distinction and considers how variations on strategy formation processes influence performance within the four proactive strategic orientations (i.e., Prospectors, Analyzers, Differentiated Defenders, and Low Cost Defenders).

Empirical Literature

Jaworski and Kohli (1993) find that the effect of market orientation on performance is not significantly moderated by market turbulence, technological turbulence, or competitive intensity. Slater and Narver (1994) find only three of 12 conditions in which environmental factors significantly moderate the relative emphasis on the customer (vs competitor) orientation–performance relationship.

Customer orientation emphasizes the importance for a firm of gaining sufficient understanding of its customers and continuously finding ways to deliver superior customer value (Narver and Slater, 1990). Because customer orientation places the highest priority on meeting customers’ needs, a customer-oriented firm is willing and able to identify and analyze customer needs and preferences and, consequently, can serve customers better.

Whereas a customer orientation focuses on the needs of the customer, competitor orientation emphasizes collecting competitor-related information and monitoring competitors’ behaviors (Narver and Slater, 1990). The competitive environment may affect the relative focus on customers versus competitors and the required level of competitor orientation. Greater benefits might be obtained from acting on a customer- rather than a competitor oriented perspective or vice versa (Day and Wensley, 1988). The level of competitive intensity is indicated by the number of competitors and the frequency and intensity of use of certain marketing techniques to gain high market shares (Jaworski and Kohli, 1993). When market competition is mild, competitor-oriented behaviors may create unnecessary competition and lead to decreased performance. Moreover, information about competitors’ actions may stimulate managers to adopt economically irrational behaviors.

Technology orientation suggests that consumers prefer products and services of technological superiority. According to this philosophy, firms devote their resources to R&D, actively acquire new technologies, and use sophisticated production technologies (Voss and Voss, 2000). Technology-oriented firms have a competitive advantage in terms of technology leadership and offering differentiated products, which can lead to superior performance (Hamel and Prahalad, 1994).

The value of a technology orientation, however, likely depends on technological turbulence, which refers to the rate of technological changes within an industry. When the level of technological changes is relatively low, firms can benefit from relying on and making full use of their current technologies. When the market environment is marked by rapid technological advances, the value and impact of prior technology deteriorates very quickly (Srinivasan, Lilien, and Rangaswamy, 2002), firms must allocate more resources to technology development, experiment with new technologies, and manage uncertainty through innovations; otherwise, they will be driven out of the market due to increasingly obsolete technology. Thus, a higher level of technology orientation is needed to cope with high levels of technological turbulence.

Figure 1 shows the conceptual framework. The dependent variable is strategic orientation which is operationalized in terms of three main types of strategic
orientation – customer orientation, competitor orientation, and technology orientation.

RESEARCH METHODOLOGY

The paper takes on a mix of two methodologies: desk review approach and interviews. The desk review is made in order to provide a descriptive exposition of the industry dynamics as well as a qualitative presentation of some of the issues in the cement industry in Kenya in terms of strategic orientation. The interviews are performed with some of the production and marketing managers of a few cement manufacturing firms in Kenya. This is meant to provide information on how strategic orientation is executed in the firms as well as how competition has influenced the strategic orientation among the firms.

Data was therefore collected from two sources. The first source included collected of secondary materials in the form of industry reports from a variety of sources. This aided in the gathering of data for desk review. The second element of data collection involved conducting of interviews with production and marketing managers on varied dates on the premises of the firms. Interviews were conducted with six production managers from six cement manufacturing firms and four marketing managers from four cement manufacturing firms giving a total of ten interviews. The collected data was then analysed using qualitative methods where content analysis was employed. To this end, the results were categorised into themes and sub-themes and narratively presented as such in the next section.

RESULTS AND DISCUSSION

Competition in the Cement Industry in Kenya

Competition in the cement industry is increasingly getting intense as a number of firms enter the industry as others expand. The new entrants include Savanna Cement, a consortium of Chinese and Kenyan investors, which has set up a Ksh10 billion (US$114.3 million) state of the art, Eco friendly cement grinding factory in Athi River with a capacity of 1.5 million tons a year. The new cement factory will intensify the battle for margins by existing players in the highly competitive regional cement sector.

The Nigeria-based Dangote Cement is also planning to enter the Kenyan market and this is expected to provide an unprecedented battle in the cement industry especially months after the firm began building a cement plant at Mware in southern Tanzania which is expected to increase Tanzania’s cement capacity by 1.5 million tonnes by the second quarter of 2015. Mr. Aliko Dangote, a Nigerian tycoon who is Africa’s richest man with the largest manufacturing conglomerate in West Africa, plans to build a Ksh34 billion (US$400 million) cement factory in Mombasa that would use coal as a source of energy, increasing the number of cement factories in Kenya to seven.

An Indian firm Cemtech Kenya Limited is also putting up a Ksh12 billion (US$137.2 million) cement factory in Pokot. The company says the plant will be completed in 2015. The government has already granted a title deed for the 650 acres of land which the company bought in Pokot for the project. Cemtech is a subsidiary of Sanghi Group of India which is a major investor in the project. Cemtech has also opened new ultra-modern corporate offices along Mombasa road and appointed a project manager based at the site.

Effects of Competition on Strategic Orientation

Using Miles and Snow (1978) typology, firm’s response to environment can make them be classified as prospectors, analysers or defenders. For the cement manufacturing firms in Kenya, the response towards heightened competition with more entrants into the market has made most of the local firms to be prospectors by aggressively seeking to grow. This is why most of them are expanding their plants and opening up new other plants all over the country as they also seek new markets for their products. In terms of strategic orientation therefore, these firms are mostly focusing on the competitor orientation, technology orientation and customer orientation. Thus, from a theoretical perspective, they respond to competition through prospecting. To do this, they employ the three strategic orientations.

Competitor orientation can be seen through firms responding to the new entrants and to the expansion strategies of others. For instance, while cement manufacturing firms from other countries such as Dangote Cement from Nigeria enter the industry, existing local firms are diversifying into other markets outside the country as is the case with Bamburi Cement entering the Tanzanian market. Athi River Mining is also investing a lot in the Tanzanian market in a bid to compensate for the loss of market share in Kenya.

Customer orientation is seen in the industry through the firms’ focus on retaining their customers (market share) as well as acquiring new ones hence the expansion. This has seen a lot of advertising hence higher marketing expenses in the industry as each manufacturer try to outdo the other as the number one partner of families and part of the growth of the nation. Observations of local dailies as well as local TV stations can attest to this fact where local firms are spending more by advertising more frequently than before. Further, more advertising is being observed on the streets through billboards. The marketing managers also pointed out that they are using corporate social responsibility initiatives as another avenue of reminding customers that they have been with them before and will continue to be with them as always.
The technology orientation can also be observed as most firms try to put up mega factories with modern technology to automate the manufacturing process. The production managers pointed out that they were investing in modern technology to enable efficient production and guarantee quality products in the market. For instance, Bamburi Cement now has a dedicated Research and Innovation division to provide leadership in innovating products that customers want. To this end, they have produced products for large construction projects, products for roads, and products for general small users. Others have also gone green by introducing eco-friendly technology to help in the production.

CONCLUSION

This study sought to examine the effect of competition on strategic orientation of cement manufacturing firms in Kenya. From a theoretical perspective, cement manufacturing firms in Kenya are prospectus. To do this, they employ all the three strategic orientation types of competitor orientation, customer orientation and technology orientation just to seek new markets within the county and outside the country.

The paper recommends that for cement firms in Kenya to compete effectively, there is need for most of them to focus not only on churning out strategic documents but following them through. A customer orientation approach would be the most preferred.

This paper recommends that a survey of the industry be done where primary data would be collected through survey methodologies to gain more data that can be analysed quantitatively and deductions made based on the findings.

REFERENCES


