

## **Influence Of Organizational Culture On The Choice Of Growth Strategies' Among Manufacturing Companies In Nakuru County, Kenya**

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### **Abstract**

*Every organization has a set of values, systems, ways and means of communicating, manufacturing and general way of doing things that define it. These values define the culture of an organization. On one hand the people influence the organization culture (especially the founders) but also the organization culture dictates what needs to be done or not. Thus culture defines the organization and has a critical role on what strategy to take for growth. This study sought to assess the influence of organizational culture on the choice of growth strategies using a case of manufacturing firms in Nakuru County, Kenya. It found that every firm had a set of unique principles that defined it and people within would do all that is possible to preserve them. An organization's culture was thus found to be instrumental on the participating firms approach to specific growth strategies. The correlation between culture and the strategy chosen was such that a good strategy would fail to see the light of day if it did not support a treasured value. It was a conclusion of this study that every organization has a set of principles that define it and people within will do all that is possible to preserve them.*

**Keywords** - Growth Strategies, Organizational Culture, Strategic Fit

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### **I. INTRODUCTION**

Every organization begins with an anticipation of growth. This growth may be determined by the company's assets when valued. Growth creates opportunities to utilize the firm's resources fully to enrich and expand them because only a growing firm can create challenging jobs that force the workers to expand their knowledge and experience. Such desire for growth on the part of employees cannot but influence corporate decision making. This pursuit of maximum growth has serious industrial and macroeconomic consequences. It affects inter-firm and intra-firm competition (Odagiri, 1992).

The choice for a growth strategy depends on a number of factors. The combination of the various factors contributes to the strategies selected which influence the performance of the organization (Paul M Kariuki, Zachary B Awino, Martin Ogutu, 2011). These factors can propel an organization to either choose organic growth strategies or inorganic or both. These factors are so crucial in that a failure to understand them can lead to collapse of an organization. Strategists of the various companies then have to agree depending on the prevailing circumstances whether to go for organic growth which is growing from within or inorganically. The term inorganic growth describes how a business grows by joining one or more companies together e.g. a merger where two firms join by agreement or an acquisition of another company. Organic growth on the other hand is when a company increases the turnover of the existing business e.g. Product development, market penetration, market expansion, innovation, diversification, etc.

This study focused on manufacturing companies that are indigenous in Nakuru County of Kenya and the ones registered by Kenya Association of Manufacturers (KAM). The UN-Habitat in a report on state of the World's cities 2010/2011 placed Nakuru as the fastest

growing town in Africa with a growth rate of 13.3%. With the current county governance, Nakuru County has a population of 1,603,325 people. This high population has led to demand of goods and services to increase sharply and the market industry players have to take advantage of this. This has caused all industry players to engage in growth strategies to survive. The main issue therefore is to find a good growth strategy that will propel the resident organizations to exponential growth so as to match the exploding demand of industrial products and services in the County. This study thus sought to assess the influence of organizational culture on the choice of growth strategies in firms in Nakuru County. The study was guided by the following specific objective:

## **II. RESEARCH OBJECTIVE**

To assess how organizational culture influences the choice of growth strategies of manufacturing companies in Nakuru County, Kenya

## **III. RESEARCH QUESTION**

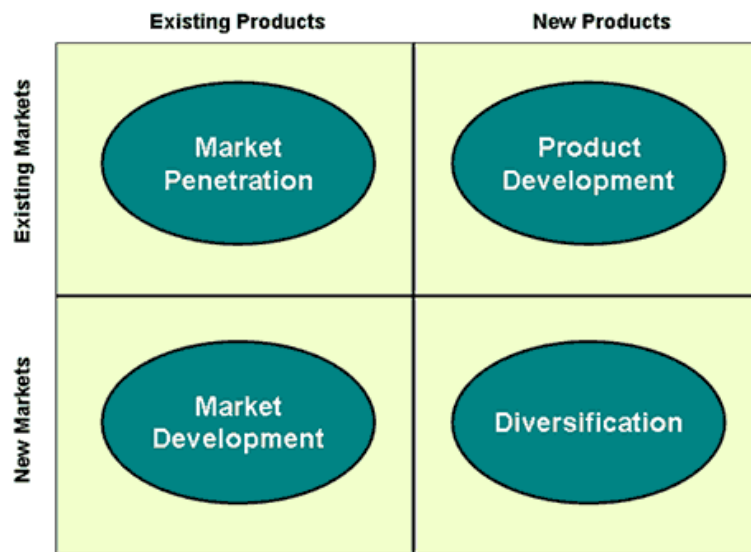
What is the influence of organizational culture on the choice of growth strategies of manufacturing companies in Nakuru County, Kenya?

## **IV. LITERATURE REVIEW**

### **Growth Strategies**

Business growth means an increase in the size or scale of operations of a firm usually accompanied by increase in its resources and output (Sonia Sabharwal, n.d). The yardstick for growth in a corporate is not the increase in revenues in the short term but the increase in the firm's value added in the long term which is the outcome of innovation and the development of sustainable competitive advantages (Canals, 2001). The ultimate goal is to find the best strategic fit that will yield maximum results in the long term. A company is said to be attaining overall growth if it has registered an increase in turnover, cash flows, expansion in market share and the quality of the management team. Firms therefore can decide to grow organically or inorganically.

Organic strategies refer to internal growth strategies that focus on growth by the process of asset replication, exploitation of technology, better customer relationship, innovation of new technology and products to fill gaps in the market place (Bruner, 2004). Organic growth is the most reliable and sustainable growth of companies. These internal growth strategies tend to rely on factors as hiring more employees, growing the customer base, opening new company owned locations or developing new products through internal research and development. Its implementation varies with individual characteristics of the firm, its culture, and its position in the market place. In organic growth, companies concentrate on their core businesses. This can be demonstrated by using Ansoff's Growth Matrix. It is a tool that helps businesses decide their product and market growth strategies. The matrix helps companies decide what course of action should be taken given their current performance. The matrix is as follows:



**Figure 1:** Ansoff's product/market growth matrix) (Tutor2u, 2012)

Ansoff's product/market growth matrix suggests that a business' attempts to grow depend on whether it markets new or existing products in new or existing markets. The output from the Ansoff product/market matrix is a series of suggested growth strategies that set the direction for the business strategy. Market penetration, is the name given to a growth strategy where the business focuses on selling existing products into existing markets. This is where a firm directs its resources to the profitable growth of a single product in a single market with a single dominant technology. In declining markets the extent to which market penetration is possible will depend on whether or not other firms exit from the market. If they do, it may be relatively easy for a company to increase its share of that market.

Market development is where the organization maintains the security of its present products while venturing into new markets. Market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets. Market development allows firms to leverage some of their traditional strengths by identifying new uses for existing products and new demographically, psycho-graphically or geographically defined markets. Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets. Product development strategy often is adopted either to prolong the life cycle of current products or take advantage of a favorite reputation or brand name. Product development includes developing new product features e.g. adapting to other ideas, modification e.g. in color, rearrange the pattern, increase or reduce size, etc. It also includes quality variations, developing additional models of sizes, etc. Diversification is the name given to the growth strategy where a business markets new products in new markets. Hitt *et al.* (2001), give two main reasons for diversification namely; enhancing the strategic competitiveness of the entire company which increases the total value of the firm but also to gain market power relative to competitors.

Inorganic growth strategies refer to the external growth by takeovers, mergers and acquisitions. It is fast and allows immediate utilization of acquired assets (Bruner, 2004). A

merger is a strategy through which two firms agree to integrate their operations on a relatively co-equal basis because they have resources and capabilities that together may create a stronger competitive advantage E.g. the merger between ICEA and LION Kenya to form ICEALION Kenya (ICEALION, 2010).

Acquisition is a strategy through which one firm buys a controlling or 100 percent interest in another firm with the intent of using a core competence more effectively by making the acquired firm a subsidiary business within its portfolio. The acquisitions can be either; Horizontal integration whereby a firm grows through the acquisition of similar firms operating at the same stage of the production – marketing chain. Such acquisitions eliminate competitors and provide the acquiring firm with access to new market. The other is Vertical integration which is a strategy based on the acquisition of firms that supply the acquiring firm with inputs or new customers for its outputs. These are backward vertical integration where the acquired firm operates at an earlier stage of the product-marketing process and forward vertical integration which is the acquisition of a firm nearer to the ultimate consumer.

The acquisitions can either be: Concentric diversification which involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets or products or Conglomerate diversification involves the acquisition of a business because it presents the most promising investment opportunity available. The other inorganic growth strategy is Joint ventures which is a grand strategy in which companies create a co-owned business that operates for their mutual benefit (Pearce et al., 2008).

A joint venture is a strategic alliance where two or more parties, usually businesses, form a partnership to share markets, intellectual property, assets, knowledge, and, of course, profits (OrsoniVauthey, 2011). The joint venture can be either national or international. A national joint venture is formation of a company within the same borders of a country. International joint venture is an agreement between two or more partners to own and control an overseas business (Rugman A. M, Hodgetts R. M, 1995). With globalization and the world becoming a global village, markets are opening up if the recent entry of Chinese companies in Africa an example being Kenya is anything to go by. This will call for all industry players to begin thinking going international in the market development strategies. One way is by forming international Joint ventures.

These are contractual partnerships because the partners involved do not take an equity position in one another. They are synonymous with licensing agreements, contractual manufacturing, franchising, etc. Their lifetime is normally for short period of time and the contact can be terminated indefinitely if one part is aggrieved. The choice of either strategies mentioned above require a critical analysis of firm factors. Therefore, the choice depends on a number of issues. The major ones include; organizational culture, competitive advantage and levels of risks involved which is a point of study for this paper. Various scholars have theorized a number of the factors and have been able to give the relationship and impact of the factors on the choices available for growth of a firm.

### **Organizational Culture**

Culture is the unique character of a social group and in this case we focus on organizations. Hofstede (1980) defined culture as cited (Kirkman B. L, Lowe K. B, Gibson C. B, 2006) as ‘the collective programming of the mind which distinguishes the members of one human group from another.’ Hofstede identified five dimensions of culture which are: power

distance, individualism vs. collectivism, masculinity vs. femininity, long term vs. short-term orientations and uncertainty avoidance (Marcus A. and Gould E. A., 2000).

Following this definition therefore it will be right to say that, Organizational culture is the unique character of an organization that distinguishes it from the others. Kirkman *et al.* (2006) say that, 'even though Hofstede (1980) conceptualized and operationalized the value dimensions at the national level it is not surprising that researchers have adapted the values for group and organizational level studies as national cultures are groups and cultural values are equally applicable to smaller groups such as teams and organizations.' Every organization has a set of values, systems, ways and means of communicating, manufacturing, and general a way of doing things that define it. These values define the culture of an organization. On one hand the people influence the organization culture especially by the founders but also the organization culture dictates what needs to be or not done. This culture defines the organization and therefore, it has a critical role on what strategy to take for growth. However, it is good to note that the way a nation does its things greatly shapes the behavior of other industry players.

It is critical to note that various nations have adapted their own way of doing things and greatly affects how business is done including adapting to a growth strategy. In Africa for example, each country adapted a kind of system of governance from their colonies. Over a period of time, this has been integrated into every sector of business. The way the Britons behave is very different from the French and Germans and this is clearly depicted in some of their former colonies in Africa. The East Africa community which has a current member of five states namely; Kenya, Uganda, Tanzania, Rwanda and Burundi has also had a share of its differences. The differences originate from the different cultures being exhibited.

While Kenya leans towards capitalism, Tanzania leans towards socialism and the two countries have had a lot of differences in the way business should be done in the region. The differences in the cultures coupled with other factors such as mistrust has derailed the implementation of the East Africa Treaty and business protocol that had been signed by the heads of states of the five countries (EAC, 2007). The national cultures therefore in most cases are also practiced by the organizations. Many multinationals have had to close their business ventures in Africa citing a harsh environment. Sadly one of the main reasons has been a refusal to learn and accept the culture of the people they service. Kenya has so many companies and the companies offer variety of services. Each has adapted it's on culture depending on either the founder members or agents running the firms. Everyone will try to protect its values at all costs. Majority of organizations will only venture into something or partner with some other organization that compliments its culture. The organizations will do everything possible to protect its fundamental values. This uniqueness of every organization makes it difficult to go for inorganic growth. Majority would rather grow organically in the name of protecting their value systems. In their study Chang and Rosenzweig (2001) as cited by (Kirkman et al. 2006) found out that as cultural distance between countries increased the tendency to choose a joint venture over an acquisition increased. This is also true for different corporate institutions with different cultures operating in a similar environment.

There are seven primary characteristics that in aggregate capture the essence of culture (Robbins S. P., 2001), they include; Innovation and risk taking which is the degree to which employees are encouraged to be innovative and take risks; Attention to detail which is the degree to which employees are expected to exhibit analysis and attention to details; Outcome

orientation where management focuses on results rather than techniques and processes used to achieve those results; People orientation where management decisions take into consideration the effect of outcomes of the people; Team orientation where work activities are arranged around teams; Aggressiveness which is the degree to which people are aggressive and competitive rather than easygoing and Stability where organizational activities emphasize maintaining the status quo in contrast to growth.

The differing cultures from the organizations can cause great conflicts which can lead to collapse of some of the ventures being undertaken. The increasing number of business transactions occurring across national borders is reflected in the general acceptance of culture as a contextual variable in management research (Adair W., Brett J., Lempereur A., Okumura T., Shikhirev P., Tinsley C. and Lytle A., 2004) One of the most common reasons given in the IJV literature and mentioned by managers for IJVs' poor performance is conflict between parent firms (Hyder, 1988). Given that IJVs consist of three entities (two parents and the joint venture organization) and these entities may have different goals and organizational climates, it is not surprising that inter-party conflict often exists in (Beamish et al, 2000). Although establishing the strategic logic of option is very valuable, it is also important to review those options with the political and cultural realities of the organizations. The culture of an organization legitimizes and sustains the paradigm of the organization (Grant, et al). In negotiating for a deal, the cultural values of an organization always come up on the table on what the organizations would like to do. Negotiators from cultures that value tradition over change may be less enthusiastic about economic development that threatens valued ways of life than negotiators from cultures that value change and development (Brett, 2001). Brett (2001) continues to say that 'when people negotiate, their behaviors are strategic and their strategies maybe culturally based'.

Since organizations are heterogeneous in their way of life, it is very difficult to get compatible ones to cooperate on a growth strategy. However, the more similar the organizations are in terms of values, beliefs, operations, etc, the more likelihood of engaging in a strategic alliance of some nature. That is why you witness mergers of similar firms like the merger between CFC and Stanbic the similarity was that they were banking institutions and hence could complement each other better. Dissimilar firms mostly would go for a joint venture or opt for organic growth strategy. As much as culture enhances organizational commitment and increases the consistency of employee behavior Robbins (2001) observes that, it also can hinder an organization's effectiveness. He observed the barriers of culture on organizational growth strategy as; A barrier to change, especially where shared values are not in congruent with those others that will further the organization's effectiveness; It is also a barrier to diversity because hiring new employees who because of race, gender, disability, or other paradoxes are not like the majority of the organization's members creates a paradox; and barrier to acquisitions and mergers: many acquisitions of the 1900s have failed and the primary cause sited was conflicting organizational cultures.

In the case where individuals influence the culture of organizations, there is a tendency of a higher risk of conflicts. These conflicts normally manifest in boardrooms, annual general meetings and sometimes to arbitrators. The causes of inter-organizational conflict have also been investigated in the general conflict literature. The most commonly cited causes of conflict are: (1) competition for scarce resources; (2) desire for autonomy; (3) goal divergence; and (4) perceptual incongruities (Pondy, 1967; Stern, 1971; Cummings, 1975; Levine, 1976).The various players in an industry have differing opinions on the way a

company should grow. All these attributes amongst the leaders can create big conflicts that easily affect a firm's growth. Therefore a critical analysis on the culture needs to be done before a growth strategy is developed. Using Hofstede's findings, it is clear there is a relationship between the culture of people and the systems they put in place to govern them (structures).

People with high power distance, individualistic, masculinity, high uncertainty avoidance and long term orientations will mostly go for high hierarchical structures so that they can influence the decisions properly as compared to those of low power distance, collectivist, feminists, low uncertainty avoidance and short term orientations. The relationship between the culture and structure plays a key role in choosing a growth strategy for an organization. The structure of the organizations becomes a cultural thing for the organization 'the way things are done here' becomes its identity.

## V. METHODOLOGY

The study targeted manufacturing companies in Nakuru County which were members of the Kenya Association of Manufacturers (KAM). The association had 29 members at the time of study. Since the population was not too big, a census of the companies was taken for the purpose of the study. A questionnaire was used to get the required data from top managers of the firms. Out of the twenty nine questionnaires distributed, only 18 were filled and returned, thus representing a return rate of 62% which was deemed to be good enough for the study. The data collected was coded and analyzed with the help of Statistical Packages for Social Scientists (SPSS) version 17 computer programme. Measures of dispersion were used to evaluate the influence of competitive position factor on the choice of growth strategy. The findings were summarized and presented by use of frequency tables.

## VI. RESEARCH FINDINGS AND DISCUSSIONS

### **Influence of organizational culture on the choice of growth strategies**

This objective was to assess whether an organization's culture influences the choice for a growth strategy. It was observed that every organization has its own values that define how they do their things including production, processing, etc. The culture of an organization in most cases is normally defined by the founder members then it evolves slowly due to environmental changes. This culture creates a sense of uniqueness that will be preserved at all cost or changed especially in cases where the culture is not helping the organization achieve its objectives. From the respondents, the researcher found out that about 90% of them are keen to preserve their culture especially when engaging in a specific strategy. Majorly many respondents were skeptical of an abrupt change in culture due to the many uncertainties that arise which may lead to some losing their jobs. Table 1 shows the statistics on respondents' preferences about losing or preserving their organization culture:

**Table1: Culture - Losing or Preserving Culture**

	<b>Culture</b>	<b>Percent</b>
Valid	Preserving	88.9
	Losing	5.6
	Total	94.4
Missing	System	5.6
<b>Total</b>		<b>100.0</b>

When asked whether the firms would go for strategies that preserve their culture or lose them, almost ninety (90) percent vehemently cited preservation of culture as a critical factor to

consider. Only about six (5.6) percent agreed to choose a strategy that will help them change and adopt a new culture. The majority of firms under study are family business and therefore the owners are very keen to maintain their cultural practices. A difference however comes in when a firm's culture is not the best and while the competitor is the best. Efforts will be made to learn the other firm's culture especially if it is a benchmark for the firm. The cultural differences also determine whether a firm would grow nationally and internationally.

## VII. CONCLUSION

It was a conclusion of this study that every organization has a set of principles that define it and people within will do all that is possible to preserve them. An organization culture was thus found to be instrumental on the participating firms approach to specific growth strategies. The correlation between culture and the strategy chosen was such that a good strategy would fail to see the light of day if it did not support a treasured value.

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