



ANALYZING THE PERFORMANCE OF EAST AFRICAN CEMENT COMPANIES




A deep dive using the HPO Framework

This Quick Insight delves into the complexities of the cement industry in East Africa, focusing on Kenya and Tanzania, and the pivotal role it plays in the region's infrastructure development. Utilizing the High-Performance Organization (HPO) Framework, the article evaluates three cement companies on the five HPO pillars: Management Quality, Employee Quality, Openness and Action Orientation, Continuous Improvement and Renewal and Long-term Orientation. The research reveals a direct correlation between the companies' HPO scores and their financial performance, offering strategic recommendations for each to enhance their HPO standing. This article is a must-read for industry leaders, policymakers, and stakeholders interested in understanding the intricacies of achieving high performance within their organization.

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KEY TAKEAWAYS

-  **The Significance of the Cement Industry in East Africa's Growth:** The article stresses cement's crucial role in East Africa's infrastructure evolution. For meaningful growth, the region needs quality local cement, necessitating cement firms to be robust enough operationally and financially to meet rising demand.
-  **Importance of Creating High Performance Organizations (HPOs):** Using de Waal's HPO Framework, the article probes the factors making companies excel. HPOs consistently surpass rivals for over five years by centering on key success determinants. Beyond financial progress, HPOs also tackle their industry's carbon footprint. The Five Pillars of HPOs are Management Quality, Openness and Action Orientation, Continuous Improvement and Renewal, Employee Quality, and Long-term Orientation.
-  **Comparative Analysis using HPO Factors:** The analysis of three East African cement firms shows their strengths and weaknesses. Post-HPO analysis improvement suggestions for the cement companies include: boosting managerial decision-making and communication for better Management Quality; cultivating open dialogue cultures for improved Openness and Action Orientation; ensuring stable work settings and robust corporate governance to emphasize Long-term Orientation; refining operations for Continuous Improvement and Renewal; and prioritizing performance systems and adaptability training for Employee Quality.



INTRODUCTION

The state of infrastructure in East Africa has long been a hurdle for the region's growth. This does not just hold back economic advancement but also affects the everyday lives of its inhabitants, especially in nations like Kenya and Tanzania. For infrastructure to improve and become affordable, one element is vital: cement. Not just any cement, but high-quality, locally-produced cement. Cement plays a pivotal role in the world of construction, laying the foundation for infrastructure growth. Therefore, it is crucial for cement companies to operate at their best, both financially and operationally. This ensures that they can meet the surging demand for top-notch cement, essential for the region's large-scale construction projects. However, there is another side to this story. Cement production is not exactly eco-friendly. It gobbles up a significant amount of raw materials and energy, becoming a substantial source of man-made carbon dioxide – it is responsible for nearly 8% of the global output.

This article delves into the performance of cement companies, assessing where they can enhance their operations and organizational structure. This is not just to increase their financial health, but also to address pressing environmental concerns. For our evaluation, we turned to de Waal's HPO Framework. This framework, backed by robust scientific validation, zeroes in on what drives companies to become high-performance organizations (HPOs). In essence, an HPO consistently outperforms its peers, both in monetary and non-monetary terms, for at least five years. It achieves this by stringently focusing on what is truly vital for its success.

Our goal? To rate the performance of various cement companies using the HPO metrics, then compare their internal processes, operations, and culture. Through this, we aim to uncover what makes one company outshine another.

A GLANCE AT THE CEMENT INDUSTRY IN KENYA AND TANZANIA

Over the past decade, both Kenya and Tanzania have seen considerable growth in their cement industries, driven largely by a revival in their building and construction sectors, both domestically and regionally.



Kenya: This country has the unique position of not just being self-sufficient in cement production, but even producing a slight surplus which is exported to neighboring regions. In 2013, the cement sector showcased its vigor by growing at a rate of 12.7%, making it the second fastest growing sector in Kenya. This growth was significant: the construction industry made up 4.4% of the nation's GDP that year. The country had six cement companies operating that year, producing 5.1 million tons. Out of these, three of the cement manufacturers had their stakes on the Nairobi Stock Exchange, and their combined market capitalization amounted to US\$1.1 billion(2014).

Tanzania: On the other hand, Tanzania has to deal with a cement deficit. Even though the cement factories had plans to increase capacity, their production in 2013 was 2.3 million tons, whereas consumption was at 3.4 million tons. This gap was filled through imports. The construction industry here contributed a larger chunk to the GDP compared to Kenya, at 6.5% in 2013, and its growth rate averaged 9.8% between 2004 and 2013. The boost in the sector can be attributed to heightened infrastructure spending by both the Tanzanian government and international donor agencies. The country was home to three cement manufacturers, two of them listed on the Dar es Salaam Stock Exchange (2014)..

For the purpose of our research, we focused on three cement companies – two located in Kenya and one in Tanzania. These companies are Company KA and Company KB (both in Kenya) and Company TC (in Tanzania).

UNDERSTANDING HIGH-PERFORMANCE ORGANIZATIONS (HPOs)

HPOs stand out due to specific factors and traits. The HPO Framework, which defines these traits, was created over several years in a two-phase research study. Initially, we combed through 290 studies on high performance to find common attributes. This in-depth literature review led to the identification of 189 potential HPO characteristics. Later, through global questionnaires distributed to both profit and non-profit entities, followed by an analytical phase, these were trimmed down to just 35 characteristics, grouped into five core factors. These five factors are crucial for any organization aiming to be an HPO, as they are directly linked to competitive performance.



They are:

1. **Management Quality:** At its core, this factor emphasizes leadership. Effective leaders act as solid role models, cultivating trust, respect, and motivation. They are performance-driven, capable of both quick decision-making and subsequent execution.
2. **Openness and Action Orientation:** This factor is all about promoting dialogue and embracing change, crucial for fostering innovation, revitalization, and transparency. The more open an organization, the faster it can refine and act upon promising ideas..
3. **Continuous Improvement and Renewal:** HPOs are always on the lookout for a competitive edge, be it through new product development, innovation, simplifying processes, or mastering key competencies.
4. **Employee Quality:** For an organization to excel, its employees must not only be competent and energized but also committed to honing their skills continually.
5. **Long-term Orientation:** This factor ensures that HPOs build lasting, mutually beneficial relationships with stakeholders and uphold social responsibility. In essence, HPOs integrate corporate social responsibility (CSR) into their ethos, focusing on the three P's: people, profit, and planet.



THE 5 STRANDS OF SUCCESS



For an organization to gauge where it stands compared to HPO standards (a score between 8.5 and 10 on a scale of 1 to 10), they can conduct an HPO diagnosis. This process starts with managers and staff taking the HPO Questionnaire, which is based on the 35 identified characteristics. Participants rate their organization on each characteristic, with scores ranging from 1 (not at all present) to 10 (very much so). By averaging out the individual scores, organizations can pinpoint which HPO factors they need to enhance. Based on these insights, they can then chart out a strategic HPO transformation plan.



THE RESEARCH APPROACH

To dig deep into the companies' performances and standards, we applied a two-pronged approach. We began by deploying the HPO Questionnaire to gather primary data. This tool enabled us to gauge both overall scores and specific ratings related to the five HPO factors and the 35 HPO characteristics. After the questionnaire, we carried out comprehensive interviews with managers from all three companies. These discussions were pivotal in understanding the reasons behind the various HPO scores. To assess organizational performance, we examined both export performance and overarching company performance over an extended duration. This analysis required us to delve into secondary data, pulling from authoritative sources like the National Bureau of Statistics in both Kenya and Tanzania, respective Ministries of Trade and Industry, proprietary company data (when accessible), and industry-wide information.

THE RESEARCH OUTCOMES

Our analysis can be visually summarized through Figure 1, which graphically showcases the scores of the companies.

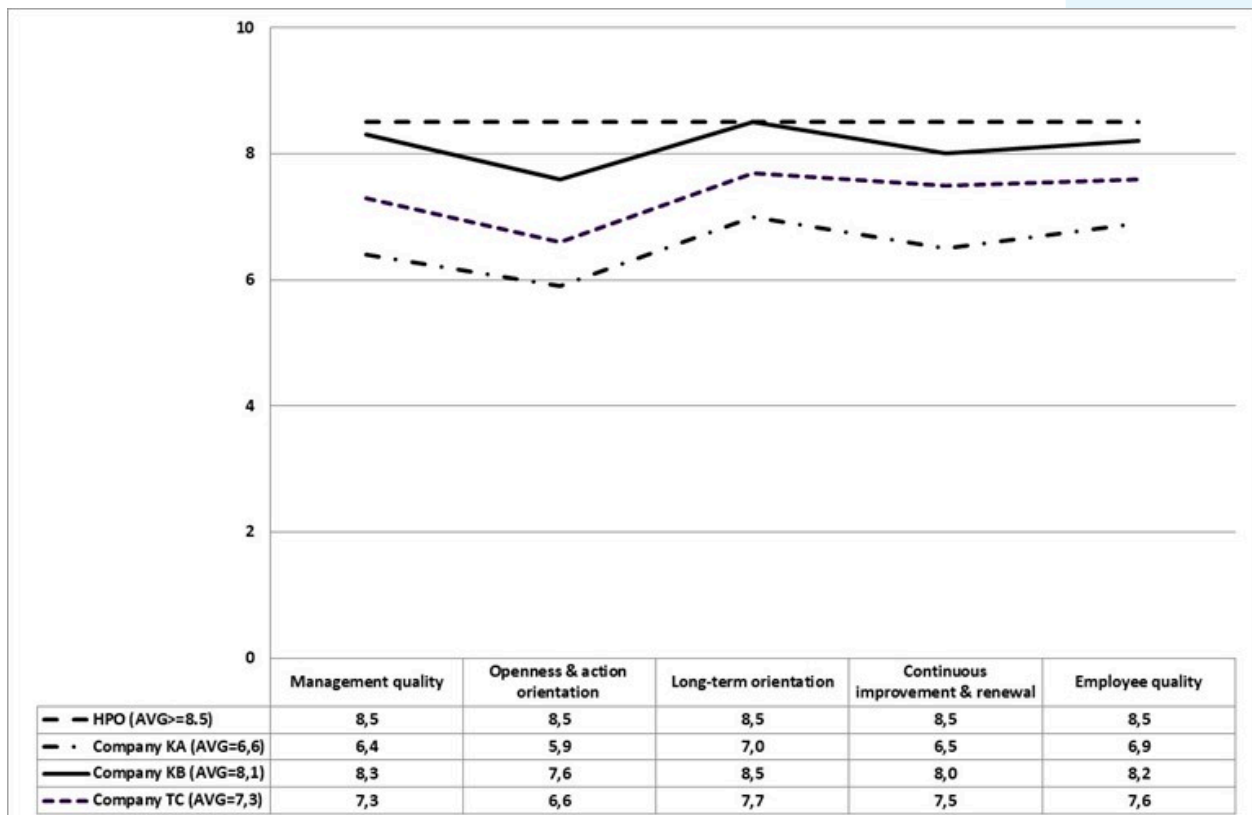


Figure 1: HPO graphs for the three East Africa Cement Companies



When looking at Figure 1, a striking observation is that all three cement companies portray similar HPO profiles – meaning their lines in the figure mimic the same shape. This similarity indicates that they are all in the same sector. At the same time, the companies differ in their organizational performance, reflected by varying HPO scores.

When examining the financial standing of the three cement companies, we looked at data spanning the past 10 years. This helped in understanding growth trends in profitability margins and the augmentation of shareholder value. We took a 10-year period because the cement industry has its highs and lows, that typically show up in cycles of 5-8 years. By analyzing a decade, we ensured that our conclusions were not based on a singular business cycle, thereby obtaining a more accurate picture. To calculate the average shift in net profits, we took the percentage difference in net profits from 2003 to 2013 and divided it by 10 (the number of years being considered). Market capitalization served as a handy measure for this. By calculating the percentage difference in market capitalization from 2003 to 2013 and again dividing it by 10, we estimated annualized shareholder value.

Here's a Summary of Our Findings:

Indicator	Company KA	Company KB	Company TC
Average Change in Net Profits per annum	- 7%	129%	40%
Shareholder Value per annum	2%	361%	19%
HPO Score	6.6	8.1	7.3

Table 1: Financial Performance & HPO Score of Cement Companies

Table 1 shows a clear alignment between the companies' HPO scores and their financial outcomes. Company KB stands out with the highest HPO score, coupled with the best financial results. On the flip side, Company KA lags both in terms of HPO score and financial performance, with Company TC charting a middle ground.



RECOMMENDATIONS

From the HPO Diagnosis, we propose several strategic recommendations for the trio of cement companies to enhance their HPO scores:

- For **Management Quality**, the firms should formulate management enhancement plans tailored to hone managerial skills, behaviors, and performance. These plans should prioritize decision-making, action-taking, and enhanced dialogue skills.
- In the realm of **Openness and Action Orientation**, a culture of openness must be fostered. This entails bolstering dialogues and communication with employees. Managerial training programs should emphasize refining communication and dialoguing capabilities.
- Regarding **Long-term Orientation**, there is a pressing need for the companies to invest more resources and effort into ensuring a stable working environment for their personnel. Concrete steps include revising corporate governance protocols, and introducing comprehensive medical and retirement benefits for its staff.
- For **Continuous Improvement and Renewal**, all three companies should strategize on simplifying and harmonizing their operational processes. Such alignment can pave the way for improved overall performance.
- Lastly, for **Employee Quality** distinct challenges await each company. Companies KB and KA should focus on instituting robust performance management systems, making employees more accountable for their outcomes. Specifically, Company KA's leadership should actively motivate the workforce towards achieving exceptional results. In contrast, Company TC should emphasize crafting training modules and cultural adaptation programs, aiding employees in becoming more adaptable and resilient.


By adhering to these recommendations, these companies can navigate their way towards achieving and maintaining high-performance organizational standards more efficiently.





ARE YOU READY TO TRANSFORM YOUR ORGANIZATION INTO AN HPO?

It all starts with insight, obtained through an **HPO diagnosis**. This diagnosis shows you how your organization—or even just a specific department—scores on the success factors of High Performance Organizations. You will receive development points/improvement themes that can be tackled by managers and employees together. The HPO diagnosis acts as a mirror, in which you honestly look at your organization (or part of it) and yourself: how far are we on the path to becoming an HPO? It helps you identify the 'hard nuts to crack': the focus areas that need to be addressed to realize your strategy and become an HPO. You determine your current level (the starting point) and use this as a basis to measure the effectiveness of the HPO transition. It also strengthens the 'sense of unity' within your organization: by identifying and addressing shared, supported improvement themes.

Achieving or maintaining the status of an HPO comes with a range of financial and strategic benefits for everyone involved: the organization, the customers, and the employees.

 **Customer Focus:** An HPO is invaluable to its customers. The primary goal is to boost customer value and satisfaction.

 **Employee Engagement:** Aiming for high performance re-energizes your team. It leads to increased job satisfaction as HPOs concentrate on what genuinely drives organizational success. It's not a new project; it's a new mindset and approach to work.

 **Adaptability:** An HPO is designed to evolve. It thrives in our ever-changing, competitive world, making your organization more resilient and future-proof. This is achieved through ongoing adjustments, learning, and improvements.

Our Offer

- ✓ Customized **HPO Diagnoses**
- ✓ Interactive **Lectures and Workshops** on the HPO Framework
- ✓ Comprehensive Interviews, **Articles**, **Books**, and Networking Opportunities
- ✓ Guidance in Implementation Led by our **HPO Experts**



Why choose the HPO Center?



Experience & Credibility

With over 15 years of practical experience combined with rigorous scientific research, the HPO Center is at the global forefront of organizational improvement advice.



Global Knowledge Center

Based in the Netherlands, the HPO Center collaborates with partners, including in emerging markets, with the aim of fulfilling its mission to improve organizations worldwide.



Unmatched Expertise

HPO doesn't stop at diagnosing organizations. We also explore, investigate, and delve deeply into related topics such as High Performance Leadership, Silo-busting, Futurizing, Social Value Creation, and High Performance Business Ecosystems—evidence of our commitment to continually expand the HPO universe.



More than Just an Organization

With a passion for inspiring, stimulating, and networking, the HPO Center is not just an organization; it's a movement. Through scientific and professional publications (all freely available at hpocenter.com and www.hpocenter.nl), books, seminars, and roundtables, we continually disseminate the knowledge of the HPO Framework and unite professionals interested in continuous improvement and excellence.

Considering an HPO transformation?

The HPO Center is ready to support and guide you on your journey toward high performance. Contact us today for an inspiring conversation or to experience an HPO workshop. Together, we'll redefine your performance.



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